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## Employee Beware! Employment Agreements and What the Technology Related Employee Should Know and Understand Before Signing that Agreement: A Practical Guide

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**Employee Beware! Employment Agreements and What the Technology Related Employee Should Know and Understand Before Signing that Agreement: A Practical Guide**

Cover Page Footnote

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**EMPLOYEE BEWARE!  
EMPLOYMENT AGREEMENTS AND WHAT THE  
TECHNOLOGY RELATED EMPLOYEE SHOULD  
KNOW AND UNDERSTAND BEFORE SIGNING  
THAT AGREEMENT: A PRACTICAL GUIDE<sup>1</sup>**

*Louis J. Papa<sup>2</sup>*

**I. INTRODUCTION**

As a prerequisite to commencing employment, an employee who accepts a technology related position is usually required to execute an employment agreement. Irrespective of how the employee is hired, it is a technology industry norm that the employee signs the agreement governing the rights and liabilities between the two parties. Because of the ephemeral nature and advancement in the technology field, it is, therefore, essential for a technology employee, i.e., a programmer, to protect his/her skills and mobility to earn a living.

In order to protect the interests of a corporation, partnership or sole proprietorship, an employer typically deems it imperative to have an employee sign such an agreement. Certain employers take particular precautions by requesting that a candidate for employment sign a confidential non-disclosure agreement before being interviewed. These agreements are vast and enforceable in

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<sup>1</sup> This article is not to be construed as legal advice, it merely addresses the issues that an employee should be aware of when signing the employment agreement.

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many states. They have far ranging implications for the employee subsequent to the divorce of the employment relationship.

The employer's primary concern is to protect proprietary information and the trade secrets of the company. This information includes, but is not limited to the source codes, client lists, data flow diagrams and the basic manner in which the employer conducts business. Many states' trade secrecy laws<sup>3</sup> protect the employer provided certain requirements are met.<sup>4</sup> However, the employer favors the additional step of having the employee sign such an agreement so that the employer can seek immediate and injunctive relief.<sup>5</sup> This provides the employer with an expedited

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<sup>3</sup> Virtually all states have adopted a portion of or modified version of the Uniform Trade Secrets Act. The Uniform Trade Secrets Act provides for "unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of non-contractual liability utilized at common law." Uniform Trade Secret Acts, *available at* <http://www.ipwatchdog.com/utsa.html> (last updated on February 13, 2003); *See also, e.g.*, Illinois Trade Secrets Act, 765 ILCS 1065/1 *et seq.* (2002); DEL. CODE ANN. tit. 6 § 2001 *et seq.* (1982); Cal. Civ. Code § 3426 (West Supp. 1993).

<sup>4</sup> *See, e.g.*, *Pepsico, Inc. v. Redmond*, 54 F.3d 1262, 1267-68 (7th Cir. 1995) ("A party seeking an injunction must, therefore, prove both the existence of a trade secret and the misappropriation."); *Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 520-21 (9th Cir. 1993) (holding that a claimant must show "that a defendant has been unjustly enriched by the improper appropriation, use or disclosure of a trade secret."); *Earthweb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 314 (S.D.N.Y. 1999). To establish the existence of a trade secret, the New York courts will consider the following factors:

- (1) the extent to which the information is known outside of the business;
- (2) the extent to which it is known by employees and others involved in the business;
- (3) the extent of measures taken by the business to guard the secrecy of the information;
- (4) the value of the information to the business and its competitors;
- (5) the amount of effort or money expended by the business in developing the information; and
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

*Id.* (citing *Ashland Mgmt., Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) (quoting Restatement of Torts § 757 cmt. b); *Savor, Inc. v. FMR Corp.*, 2002 Del. Lexis 700, \*5 (Del. 2002) ("A party may obtain injunctive relief and damages against one who acquires, uses or discloses a trade secret obtained through improper means.")).

<sup>5</sup> *See Pepsico*, 54 F.3d at 1264 (Pepsico required its management employees to sign a confidentiality agreement); *Earthweb*, 71 F. Supp. 2d at 306-07 (stating

mechanism to prevent the employee from violating any portion of the agreement. Of equal importance is the employer's desire to preclude an employee from accepting employment with a competitor.<sup>6</sup> These two areas of concern usually survive the termination of the agreement and are enforceable in many states.<sup>7</sup> Other clauses are boiler plate in nature and are not as significant, but tend to act as a smoke screen for the more treacherous clauses that can affect the employee's livelihood for months or even years to come. Many employees regularly execute these agreements without having a lawyer review them and the effects of these agreements can be devastating.

In order for an agreement to be enforceable, the agreement must include all of the elements of a valid contract. Therefore, there must be an offer, acceptance, consideration, the agreement must be entered into for a lawful purpose and both parties must possess the requisite capacity to enter such an agreement. Thus, consulting an attorney, and knowing and understanding the employment agreement will best protect the interests of the technology employee both during and after employment.

Section two of this article provides a sample employment agreement and details the various clauses that make up such an agreement. Section three analyzes an array of laws that govern both pre- and post-employment conduct. Finally, the article concludes by strongly suggesting that it is in the best interest of the employee to consult an attorney before signing an employment agreement to avoid unintended consequences, or in the alternative, provides important factors for the employee to be aware of when reviewing and signing an employment agreement.

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that the defendant, before starting working for Earthweb, signed an employment agreement).

<sup>6</sup> See *Earthweb*, 71 F. Supp. 2d at 307 (stating that the employment agreement contained a section which provided that defendant shall not work for anyone that competes directly with Earthweb for a period of 12 months).

<sup>7</sup> *Id.* at 311 ("Clearly, a written agreement that contains a non-compete clause is the best way of promoting predictability during the employment relationship and afterwards.").

## II. SAMPLE EMPLOYMENT AGREEMENT

### A. *Parameters of Employment*

It stands to reason that if the employer is requiring the employee to sign such an employment agreement, then the employee should take all necessary steps to ensure that all of the terms and conditions governing the employment are contained within the agreement.

First, the employee should list the primary items of employment including, but not limited to salary, sick leave and vacation. It is imperative that those terms be contained within the agreement to protect the interests of the employee. The following is an example of clauses that should be placed in an employment contract:

#### 1. **Compensation**

The Company shall pay the Employee for services rendered, a salary at the rate of \$ \_\_\_\_\_ a year, payable bi-weekly. Salary payments shall be subject to withholding and other applicable taxes.

#### 2. **Expenses**

Consistent with his duties, the Employee may incur reasonable expenses for promoting the Employer's business, including expenses for entertainment, travel and similar items, subject to management's approval and at their discretion. The Employer will reimburse the Employee for all such expenses upon the Employee's periodic presentation of an itemized account of such expenditures.

#### 3. **Vacation**

The Employee shall be entitled to vacation as follows: (a) After working one full year: two weeks (not to be taken consecutively, unless previously approved by management) (b) After working three full years: three weeks (not to be taken consecutively, unless previously approved by management).

**4. Sick Pay**

The Employee shall be entitled after the first month of employment to have eight business days in each year for sickness or disability at full salary and two personal days provided advance notice is given to management.

***B. Duties of Employee***

The duties of an employee should be outlined in the agreement. The employer would attempt to word the duties in a more general fashion in order to protect his own interests. The employee, however, would wish to draft such a clause to be as specific as possible. The following is a typical clause favoring the employer and one that he or she will attempt to utilize relative to a sales associate in a technology related company:

**1. Duties**

(a) The Employee is to represent the Company in the capacity of a sales representative. In such capacity, the Employee will offer customers and potential customers the computer hardware and software products sold or leased by the Company and the computer services to support such products also sold by the Company. In order to be an effective representative, the Employee shall endeavor to keep himself knowledgeable in the technology and performance of the products and services offered by the Company and by competitors and the applications of such products and services to the needs of the customers or potential customers. In pursuance of his education in the technology and its applications, the Employee agrees to attend classes or sessions at off-hours and on non-working days at no additional compensation.

- (b) In addition to Employee's sales duties and other related duties, the Employee will submit written proposals to the customers and potential customers based upon costs and procedures prescribed in writing by the Company, or, if no writing exists, as prescribed by the Employee's superior or superiors. All proposals and Agreements submitted to customers or potential customers will not be binding upon the Company until countersigned by Employee's superior or by an officer of the Company, except for those categories of Agreements and proposals which may be specifically authorized by the Company in writing to be binding upon submission to the customer or potential customer. After sales have been booked, the Employee will be responsible for:
- (i) Insuring delivery of the ordered products;
  - (ii) Overseeing installation of the ordered products;
  - (iii) Overseeing the customer's instructions in use of the ordered products;
  - (iv) Remediating any defects in the ordered products, the installation thereof, or the instructions given; and
  - (v) Where necessary or appropriate to the extent of Employee's competence, the Employee doing the actual installation or repair.
- (c) In carrying out these duties, Employee will strive to be courteous and prompt in dealing with the customers and potential customers. At no time, will Employee take gifts of any nature and kind from any customers or potential customers except for an occasional invitation to a lunch or dinner. Likewise, the Employee will at no time offer any gifts or other emoluments to customers or their employees except to entertain them on occasions, at the suggestions of management.



## 2. Extent of Services

Although work hours are not specified in an Employment Agreement, an Employee will be expected to work whatever hours are required during weekdays as well as on weekends and holidays. Employee shall devote his entire time and attention to the Company's business and shall not do work for others even though it would be done during non-working hours or on holidays, weekends or vacations. During the terms of this Agreement, the Employee shall not engage in any other business activity, regardless of whether it is pursued for gain or profit. The Employee, however, may invest his assets in other companies so long as they do not require the Employee's services in the operation of its affairs.

### C. *Governing Law and Jurisdiction*

Generally, an employment agreement would contain choice of law and forum selection clauses (discussed in detail in Section three) that govern the parties' disputes. The employee can easily protect him/herself by including a typical clause such as that which follows:

The validity of this Agreement, the construction and enforcement of its terms and the interpretation of the rights and duties of the parties shall be governed by the laws of the State of New York (or wherever the employee resides). The Employee agrees to subject him/herself to the jurisdiction of the courts of the State of New York in the event of any dispute relating to his/her employment of this Agreement.<sup>8</sup>

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<sup>8</sup> See *Cullman Ventures, Inc. v. Conk*, 252 A.D.2d 222 (1st Dep't 1998). Petitioner, a New York corporation, purchased Day Dream, Inc., an Indiana company that employed Respondent. The employment agreement required that the agreement shall "be construed in accordance with Indiana law, and that conflicts would be resolved by arbitration commenced in Indiana." *Id.* at 225. Petitioner fired Respondent who commenced arbitration in Indiana pursuant to the agreement. Petitioner began arbitration in New York pursuant to a stock agreement, which provided that all stock purchase related disputes will be

**D. At Will Employee Clause**

The following two clauses are typical of the ones utilized by employers in a non-duration agreement and provide the employer with the right to maintain an at-will status:<sup>9</sup>

**1. Employment**

The Company employs the Employee and the Employee accepts employment upon the terms and conditions of this Agreement.

**2. Term - Employment-At-Will Two Weeks Notice**

The term of this Agreement shall begin on date hereof and either party shall have the right to terminate their employment and this Agreement upon two weeks notice to the other, except that the Company may terminate the Employee's employment obligation hereunder and for acts of Employee involving moral turpitude. Notwithstanding termination of this Agreement or Employee's employment, to the extent applicable, this Agreement shall continue to be in effect.

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arbitrated in New York and governed by New York law. The Court held that "[t]he mere fact that there exists some nexus between a reason for his termination and the subject matter of some other agreement among these and other parties does not alter the forum selection directive in the arbitration clause of the employment agreement." *Id.* at 229-30. In *Nordson Corp. v. Plasschaert*, 674 F.2d 1371 (11<sup>th</sup> Cir. 1982), plaintiff was an Ohio company and defendant, employee, lived and worked for the plaintiff in Georgia. The employment agreement stated that Ohio law would govern the obligations. The employment agreement also contained a non-compete clause that did not specify any geographical area. Georgia law would not enforce a non-compete clause that contains no limitations on territorial scope while Ohio law would enforce such a clause. The district court held that "under Georgia's conflict of laws rules Georgia would honor this choice by the parties of Ohio law as controlling." *Id.* at 1374.

<sup>9</sup> Meaning that the employee can be fired for any reason and "just cause" is not required for termination. *See also infra* notes 10-11.

***E. Typical Clauses for Post-Employment Protection***

Contained within a typical employment agreement is the following clauses that actually comprise the crux of the employer's concerns – inventions, trade secrets, confidential information - and that which will do the most damage to the employee's future:

(a) Every invention, discovery or improvement made or conceived by Employee during his employment relating to the Company's business whenever or wherever made or conceived, and whether or not during business hours, of any product, article, appliance, tool, device, formula, process, machinery or pattern similar to, or which constitutes an improvement, on those heretofore, now or at any time during his employment, manufactured, used, or sold by the Company in connection with the manufacture or process of any product or service heretofore or now or hereafter manufactured, used or sold by the Company, or of any product or service which shall or could reasonably be manufactured, used or sold by in the reasonable expansion of the Company's business, shall be and continue to remain the Company's exclusive property, without any added compensation or any reimbursement for expenses to Employee, and upon the conception of any and every such invention, discovery or improvement and without waiting to perfect or complete it, Employee promises and agrees that he will immediately disclose it to the Company and to no one else and, thenceforth, will treat it as the property and secret of the Company. Employee will also execute any instruments requested from time to time by the Company to vest in it complete title and ownership to such invention, discovery or improvement and will, at the request of the Company, do such acts and execute such instruments as the Company may require, but at the

Company's expense to obtain Letters Patent to the United States and foreign countries, for such invention, discovery or improvement and for the purpose of vesting title thereto in the Company, all without any reimbursement for expenses or otherwise and without any additional compensation of any kind to employee.

(b) Employee acknowledges that the services to be rendered by him to the Company are special, unique and extraordinary, and that he may, during the term of his employment, obtain confidential information of the Company relating to: secrets and secret appliances, tools, devices, formulae, source codes, processes, machinery patterns, program lists of Company's customers and confidential customers' files, the use or revelation of any of which confidential information by Employee during his employment hereunder, might, would or could injure or cause injury to the Company's business. Accordingly, Employee agrees that he will forever keep secret and inviolate any such confidential knowledge or information including, but not limited to, Company's secret articles, appliances, tools, devices, formulae, processes, machinery patterns, programs, source code, inventions or discoveries and will not utilize the same for his private benefit or directly or indirectly for the benefit of others, and he will not disclose such secret knowledge or information to anyone else. The foregoing shall not be applicable to any information, which now is, or hereafter, shall be in the public domain, provided Employee is not the person who, without the Company's consent, causes such information to be disclosed to the public or to other persons.

(c) Employee acknowledges that he will be entrusted with dealing personally with customers of the Company and that he will be using Company funds to feed and to entertain such customers.

Accordingly, if Employee shall voluntarily leave the employ of the Company, or if Employee is terminated for cause as defined in Paragraph 2 above, Employee shall not, directly or indirectly, solicit business from or accept business from customers of the Company for a period of one year after termination of Employee's employment. "Directly" or "indirectly" as used in the preceding sentence includes Employee acting for himself, or as a partner, stockholder, or investor, or as an agent, employee or contractor of another, or as a finder or broker. Customers of the Company are defined as those persons or firms who either gave firm orders to the Company within six months of Employee's termination, or who were active within two months of Employee's termination.

(d) Subsequent to the termination of this Agreement, Employee will not interfere with or disrupt, or attempt to disrupt the Company's business relationship with its customers or suppliers, or solicit any of the employ of the Company.

(e) Should Employee at any time reveal or threaten to reveal any such confidential knowledge or information, or during any restricted period, engage or threaten to solicit or accept business of customers of the Company, or perform any services for anyone engaged in such solicitation or acceptance of business, or in any way violate or threaten to violate any of the provisions of this Agreement, Company shall be entitled, in addition to such other remedies it may have, to an injunction restraining Employee from doing or continuing to do, or performing any such acts; Employee shall not urge as a defense to our issuance of such an injunction; and Employee shall not urge as a defense to our proceeding for injunctive relief that there is an adequate remedy at law, nor shall the Company be prevented from seeking any other

remedies, including monetary damages, which may be available.

(f) The existence of any claim or cause of action by the Company against Employee, or by Employee against the Company, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the foregoing restrictive covenants, but shall be litigated separately.

(g) The failure of the employer to insist, in any one or more instances upon a strict performance of any of the covenants of this agreement, or to exercise any option herein contained, shall not be construed as a waiver or a relinquishment for the future of such covenant or option, but the same shall continue and remain in full force and effect. No waiver by the Employer of any provision hereof shall be deemed to have been made unless expressed in writing and signed by the Employer.

#### ***F. Other Clauses***

The employer would also generally attempt to insert the following clauses that are just as enforceable as the previously recited clauses:

##### **1. Entire Agreement**

This Agreement contains the entire understanding of the parties. It may not be changed orally, but only by an Agreement in writing by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought.

##### **2. Severability**

If any provision of this Agreement is declared invalid by any tribunal, then such provision shall be deemed automatically adjusted to conform to the requirements for validity as declared at such time, and, as so adjusted, shall be deemed a provision of

this Agreement as though originally included therein. In the event that the provision invalidated is of such nature that it cannot be so adjusted, the provision shall be deemed deleted from this Agreement as though the provision had never been included therein. In either case, the remaining provisions of this Agreement shall remain in effect.

### III. LAWS GOVERNING EMPLOYMENT AGREEMENTS

#### A. *Pre-Employment Laws to Keep in Mind While Negotiating an Agreement*

##### 1. At-Will Employee Law

An employee may be hired either on an at-will basis or may be provided with just cause protection. In the majority of states, an employee is hired on an at-will basis.<sup>10</sup> Notwithstanding an employment agreement for duration, or if an employee is a member of a protected class and possesses a claim for discrimination, the average American employee can be dismissed for any reason or no reason whatsoever.<sup>11</sup> When signing an agreement, an employee believes he/she has additional just cause protection from being “laid off” or “let go” without cause, but this

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<sup>10</sup> See, e.g., *Earthweb*, 71 F. Supp. 2d at 306 (“Schlack’s employment is ‘at-will.’”); *Main v. Skaggs Cmty. Hospital*, 812 S.W.2d 185, 186 (Mo. Ct. App. 1991) (“[U]nder Missouri case law a written contract for services which does not contain a stated term shall, as a matter of law, be held to be terminable at will.”); *Caton v. Leach Corp.*, 896 F.2d 939, 943 (5th Cir. 1990) (“[S]ales representative agreement allowed for Caton’s termination at will.”); See also, Douglas K. Moll, *Reasonable Expectations v. Implied in-fact Contracts: Is the Shareholder Oppression Doctrine Needed?*, 42 B.C. L. REV. 989 (2001) (“In almost every jurisdiction in the United States an employer can discharge an employee without notice and without cause unless the duration of the employment relation is specified in an employment contract.”) (citing Jay M. Feinman, *The Development of the Employment at Will Rule*, 20 AM. J. LEGAL HIST. 118, 118 (1976)).

<sup>11</sup> See, STEVEN L. WILLBORN ET AL., *EMPLOYMENT LAW: CASES AND MATERIALS* 95 (3d ed. 2002) (“[U]nless the parties state otherwise, the employer can discharge the employee for a good reason, bad reason, or no reason at all.”).

is not the case unless the agreement provides for employment in another form other than “at-will.”<sup>12</sup> Generally, just cause protection is provided to an employee who is employed under an employment contract for a stated term of years.<sup>13</sup> In *Chiodo v. General Water Works*,<sup>14</sup> the plaintiff accepted an offer from the defendant to convey to them Bear River Telephone Company upon the condition that they agreed to employ him as a manager for ten years at a salary of \$12,000 per year.<sup>15</sup> The court held that since this was an employment contract for a stated term of years, General Water Works could only fire Chiodo if they had just cause.<sup>16</sup> In a recent federal case, *Hamilton v. Segue Software, Inc.*,<sup>17</sup> the plaintiff attempted to argue that the inclusion of the yearly salary rate in the letter offering employment, created ambiguity as to whether the employment was at-will.<sup>18</sup> The court decided the case under Texas law and held that the offer letter language, alone, failed to limit in a ‘meaningful and special way’ the employer’s right to terminate the employee at will.<sup>19</sup>

## 2. Statute of Frauds

Pursuant to the applicable Statute of Frauds, certain types of agreements need to be in writing to be enforceable.<sup>20</sup> Regarding

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<sup>12</sup> See, e.g., *Chiodo v. General Waterworks Corp.*, 413 P.2d 891, 892 (Utah 1966) (“In accordance with the understanding and agreement, . . . your employment . . . is to continue for a period of ten years.” The court stated that “this is a contract for a term of years and [not at will] and that the employer must have a justifiable cause to terminate it.”).

<sup>13</sup> *Id.*

<sup>14</sup> *Chiodo*, 413 P.2d at 891.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 892 (“Under an employment contract for a stated term, it is to be assumed that the parties intended that the employee would render honest, faithful and loyal service . . . a willful and substantial failure to adhere to these standards would be justifiable cause for termination.”).

<sup>17</sup> 232 F.3d 473 (5th Cir. 2000).

<sup>18</sup> *Id.* at 477.

<sup>19</sup> *Id.* at 480.

<sup>20</sup> See, e.g., *Cantell v. Hill Holliday Connors Cosmopolos, Inc.*, 772 N.E.2d 1078, 1081 (Mass. App. Ct. 2002) (“Any agreement to pay compensation for service as a broker or finder of [employees] shall be void and unenforceable unless such agreement is in writing. [This writing requirement will] discourage



service agreements (i.e. employment), technically, if they are for a prescribed period of one year or more, they must be in writing to be enforceable.<sup>21</sup> However, since the agreement is capable by its terms of being performed within one year because the employee may quit at any time and the employer may terminate the employment within a year, oral promises may be enforceable. Essentially, if the employer made certain representations during the interview and they are not integrated into the agreement, those verbal representations or promises made by the employer will be difficult to prove, as they introduce an evidentiary question into the equation. These promises could include bonuses, vacation, or any other benefits the employee believes he/she was entitled to.

### 3. Choice of Law

Where the parties have explicitly agreed, pursuant to a contractual provision, that the law of a particular jurisdiction shall control, courts will apply the law of the jurisdiction set forth in the contract. The requirement is that the law of the jurisdiction shows a reasonable relationship to the parties' transaction, and that the chosen law is not contrary to fundamental public policy of the state.<sup>22</sup> Consequently, if the employee does not understand the choice of law clause in the employment agreement, that employee may be agreeing to be bound by the laws of a state which are more favorable to the employer in the event of a dispute.

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claims for commission based on conversation which persons heard differently or remembered differently.”).

<sup>21</sup> See RESTATEMENT (SECOND) OF CONTRACTS: THE STATUTE OF FRAUDS § 130 (1981):

(1) Where any promise in a contract cannot be fully performed within a year from the time the contract is made, all promises in the contract are within the Statute of Frauds until one party to the contract completes his performance.

<sup>22</sup> See *Caton*, 896 F.2d at 942 (“Texas choice of law principles give effect to choice of law clauses if the law chosen by the parties has a reasonable relationship with the parties and the chosen state, and the law of the chosen state is not contrary to a fundamental policy of the state.”).

#### 4. Forum Selection

It is critical that the employee understands what particular jurisdiction and forum the matter will be litigated in, in the event of a dispute. An employee may accept a position with a company whose home office and principal place of business is in a jurisdiction other than where the employee will be physically working. The employee may not be aware that he is waiving his jurisdictional right to litigate the agreement in the state in which he resides.<sup>23</sup>

It is particularly important that the employee does not agree to have to a forum selection involving a foreign jurisdiction. In addition to legal fees incurred, the associated travel and hotel costs could be prohibitive.

#### 5. Arbitration

Recently, employers have inserted arbitration clauses precluding the employee from going to court.<sup>24</sup> These clauses compel the employee to litigate the issues in one forum, typically arbitration, usually via the American Arbitration Association.<sup>25</sup> There are pros and cons associated with arbitration. Arbitration is less expensive than litigation, it has simpler procedural and evidentiary rules, it generates less hostility, and it is more flexible in scheduling times and places of hearings. Conversely, arbitration is not an authoritative statement of the law, it does not afford the complainant a jury trial, it has no formal discovery process which

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<sup>23</sup> See *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991) (a forum selection clause in an agreement provides the parties to select a state in which all controversies and disputes would be litigated arising out of the agreement).

<sup>24</sup> See *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20 (1991) (Plaintiff, as part of his employment contract, “agreed to arbitrate any dispute, claim or controversy.” Defendant terminated plaintiff’s employment and plaintiff brought suit in the district court. The Supreme Court held that a claim brought against the defendant “can be subjected to compulsory arbitration pursuant to an arbitration agreement.”).

<sup>25</sup> See American Arbitration Association Dispute Resolution Services Worldwide, available at <http://www.adr.org/index2.1.jsp> (last updated on 1/24/03).

will enable an employee to support his/her claim, and finally it generally results in lower awards. Cases must be examined individually to determine which form of litigation best protects the employee. Some variables for employees to consider in making this determination include the jury make up of the particular jurisdiction in which the dispute is being litigated and the cost of litigation.

Courts generally hold arbitration clauses enforceable.<sup>26</sup> There is a presumption in favor of arbitration where there is an arbitration agreement included in a contract.<sup>27</sup> In *Lieschke v. RealNetworks, Inc.*,<sup>28</sup> plaintiffs had accepted an agreement calling for arbitration in the event of a conflict with a supplier of computer software.<sup>29</sup> Plaintiffs filed a claim against the defendants for using that software to remotely monitor their usage habits. The conflict was not something “arising under” the license agreement, as the arbitration clause called for, thus the plaintiffs moved to have the arbitration clause ignored.<sup>30</sup> The court held in favor of the defendants stating that “[t]his difference in terminology is not the kind that overcomes the heavy presumption in favor of arbitrability.”<sup>31</sup> The court further opined that “[b]asing arbitrability on choice of prepositions would neither satisfy the required liberal construction of arbitration agreements, nor support the federal presumption in favor of arbitrability and, thus, the Plaintiff’s argument must fail.”<sup>32</sup>

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<sup>26</sup> See *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105 (2001) (In 1925, Congress enacted the Federal Arbitration Act, 9 U.S.C. § 1, as a “response to hostility of American courts to the enforcement of arbitration agreements, . . . [however], the FAA compels judicial enforcement of a wide range of written arbitration agreements.”); See also *Lieschke v. RealNetworks, Inc.*, No. 99-C7274, 2000 U.S. Dist. LEXIS 1683, \*2 (N.D. Ill. Feb. 11, 2000) (“If parties have a contract providing for arbitration for some issues, questions concerning the scope of issues subject to arbitration should be resolved in favor of arbitration.”) (citing *Miller v. Flume*, 139 F.3d 1130, 1136 (7th Cir. 1998)).

<sup>27</sup> See *Lieschke*, 2000 U.S. Dist. Lexis at \*2.

<sup>28</sup> 2000 U.S. Dist. LEXIS 1683, \*3 (N.D. Ill 2000).

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> *Id.* at \*7.

<sup>32</sup> *Id.* at \*8.

**B. *Post-Employment Laws to Keep in Mind While Negotiating an Agreement***

**1. *Inventions and Shop Rights***

Another item that an employee should be aware of prior to signing an agreement is whether or not his employer has a right to any of his inventions. “The common law regards an invention as the property of the inventor who conceived, developed, and perfected it.”<sup>33</sup> Therefore, an employee does not have to assign a patent over to his employer merely because of employment.<sup>34</sup> However, when an employee is specifically hired to invent or solve a specific problem, the employee must assign the resulting patent.<sup>35</sup> Also, an employer is granted an irrevocable, but non-exclusive right to use an employee’s invention under the “shop right rule” when an employee is hired as a non-inventive employee, but invents a device during working hours with the use of the employer’s materials and equipment.<sup>36</sup> The doctrine of the shop right is “where an inventor . . . acquiesces in the use of the invention by another, particularly where he induces and assists in such use without demand for compensation . . . he will be deemed to have vested the user with an irrevocable, equitable license to use the invention.”<sup>37</sup> Most employers use written contracts in order to allocate invention rights. Courts have upheld these contracts that require an employee to assign to the employer the inventions

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<sup>33</sup> *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 885 (N.J. 1998):

One by merely entering an employment requiring the performance of services of a non-inventive nature does not lose his rights to any inventions that he may make during the employment . . . and this is true even if the patent is for an improvement upon a device or process used by the employer or is of such great practical value as to supersede the devices or processes with which the employee became familiar during his employment.

*Id.* (citing *National Dev. Co. v. Gray*, 55 N.E.2d 783, 786 (Mass. 1944).

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 886.

<sup>36</sup> *Id.* (“A shop right is an employer’s royalty or fee, a non-exclusive and non-transferable license to use an employee’s patented invention.”).

<sup>37</sup> *Francklyn v. Guilford Packing Co.*, 695 F.2d 1158, 1160 (9th Cir. 1983).

designed during the employment period.<sup>38</sup> However, courts are reluctant to uphold contracts in which employers compel employees to assign inventions designs in each and every instance to the employer.<sup>39</sup>

Typically, employers require employees to enter into employment contracts containing holdover clauses. A “holdover” clause is a contract provision that requires the assignment of post-employment inventions.<sup>40</sup> There are competing interests that must be balanced in order to determine whether or not holdover clauses are enforceable – to protect the investments made by the employer and to provide continued motivation and incentive to the inventors. To that end, courts have generally held that an inventor has the right to use the general skills and knowledge that the inventor has attained during his former employment.<sup>41</sup> Conversely, courts have held that employers also have the right to protect their interests – trade secrets, new and confidential technology, and their customer list.<sup>42</sup> Therefore, in order for “holdover” clauses to be enforceable “they must be fair, reasonable, and just.”<sup>43</sup> Courts use a test similar to that used to determine the enforceability of the non-compete agreements. In order to balance these competing interests, courts use the “test of reasonableness.” The test finds, if proved, a clause unreasonable if the restrictions were beyond the obvious protection the employer originally required; if the clause prevented the employee from seeking employment elsewhere; and if the restriction had an adverse impact on the public.<sup>44</sup>

Therefore, an employee really needs to worry about non-disclosure, non-compete and right to invention provisions because those are the clauses that will affect the employee’s professional life beyond the termination of employment.

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<sup>38</sup> *Ciavatta*, 542 A.2d at 886; *See also* *Bandag, Inc. v. Morenings*, 146 N.W.2d 916 (Iowa 1966); *Cahill v. Regan*, 157 N.E.2d 505 (N.Y. 1959).

<sup>39</sup> *Ciavatta*, 542 A.2d at 886.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* at 888.

<sup>44</sup> *Ciavatta*, 542 A.2d at 887. (“Generally, a clause is unreasonable if it: (1) extends beyond any apparent any apparent protection that the employer reasonably requires; (2) prevents the inventor from seeking other employment; or (3) adversely impacts on the public.”).

## 2. Non-Compete Clause

Courts have consistently held that non-compete agreements are enforceable unless the terms are unreasonable or unfair.<sup>45</sup> In cases where the courts have found the non-compete agreements unreasonable, courts denied either the injunctive relief called for in the agreement, or revised the agreement to include fair and reasonable terms.<sup>46</sup>

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<sup>45</sup> See, e.g., *Software Sys. Inc. v. Ajuria*, No. 05-99-01338-CV, 2000 Tex. App. LEXIS 5277, \*8 (Tex. Ct. App. Aug. 9, 2000) (holding that the covenant not to compete was unreasonable because it prohibited the employees from performing programming or consulting anywhere in the United States for one year); *The Proctor & Gamble Co. v. Stoneham*, 747 N.E.2d 268, 275 (Ohio Ct. App. 2000) (“The three-year limitation on competition was shown to be reasonable by evidence that the confidential information to which Stoneham had access had a useful life of three to five years.”); *Hayes v. MSP Communications*, No. C9-97-1558, 1998 Minn. App. LEXIS 453, (“When evaluating the validity of non-compete agreements, the court considers the offer of consideration for the agreement, the reasonableness of the agreement’s restrictive terms, and whether the agreement was designed to protect an employer’s legitimate interest that is greater than the employee’s interest.”) (citing *Webb Pub. Co. v. Fosshage*, 426 N.W.2d 445, 450 (Minn. App. 1988)); *Martin v. Ratliff Furniture Co.*, 264 S.W.2d 273 (Ky. Ct. App. 1954) (restraint must be reasonable and in the best interest of the public); *Simmons v. Miller*, 544 S.E.2d 666 (Va. 2001) (holding that the restrictive covenant was unreasonable because it prohibited the employee “from engaging in the business of importing cigars anywhere in the world.”); *Washington County Mem’l Hosp. v. Sidebottom*, 7 S.W.3d 542 (Mo. Ct. App. 1999) (holding that a non compete clause in the employment agreement that prohibited the employee to practice as a nurse for a year and within a 50 mile radius of the employer was reasonable).

<sup>46</sup> See, e.g., *Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.*, 968 F.2d 1463, 1469 (1st Cir. 1992):

Courts presented with restrictive covenants containing unenforceable provisions have taken three approaches: (1) the “all or nothing” approach, which would void the restrictive covenant entirely if any part is unenforceable, (2) the “blue pencil” approach, which enables the court to enforce the reasonable terms provided the covenant remains grammatically coherent once its unreasonable provisions are excised, and (3) the “partial enforcement” approach, which reforms and enforces the restrictive covenant to the extent it is reasonable, unless the “circumstances indicate bad faith or deliberate overreaching” on the part of the employer.

For example, in order for a non-compete agreement to be enforced in Texas, the following requirements must be met:

- (i) it must be ancillary to or part of an otherwise enforceable agreement at the time the agreement is made; (ii) it must contain reasonable limitations as to the time, geographic area, and scope of the activity; (iii) it must be no greater than necessary to protect the promisee's legitimate interest; and (iv) the promisee's need for protection afforded by the agreement must not be outweighed by either the hardship to the promisor or any injury likely to the public.<sup>47</sup>

In *Software Systems, Inc. v. Ajuria*,<sup>48</sup> a Texas court held that a non-compete agreement was not enforceable because it was too broad.<sup>49</sup> The agreement prohibited former employees from working on the same computer system, anywhere in the United States, for one year after their termination.<sup>50</sup> The requirement that was at issue in this case was the geographic limitation.<sup>51</sup> The court held that "a reasonable area is considered to be the territory in which the employee worked while in the employment of his employer."<sup>52</sup> The defendants were no longer working in Texas;

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*Id.* (citing *Durapin, Inc. v. American Prod., Inc.*, 559 A.2d 1051, 1058 (R.I. 1989)); *Ikon Office Solutions, Inc. v. Dale*, 2001 U.S. App. Lexis 22855, \*\*5-6 (8th Cir. 2001) (affirming the district court's modification of the length of the injunction from five years to three years); *Lexis-Nexis v. Beer*, 41 F. Supp. 2d 950, 957 (D. Minn. 1999) (stating "if the court determines that the non-compete agreement is unreasonable, it is 'empowered to modify or amend the agreement to achieve reasonable results.'") (citing *Raimonde v. Van Vlerah*, 325 N.E.2d 544, 547 (Ohio 1975)).

<sup>47</sup> Tex. Bus. & Com. Code Ann. §15.50(a) (Vernon Supp. 1997).

<sup>48</sup> 2000 Tex. App. LEXIS 5277 (2000).

<sup>49</sup> *Id.* at 12 (affirming the trial court's grant of summary judgment).

<sup>50</sup> *Id.*

<sup>51</sup> *Software Systems*, 2000 Tex. App. LEXIS at \*9.

<sup>52</sup> *Id.* at 9 (citing *Zep Mfg. Co. v. Harthcock*, 824 S.W. 2d 654, 660 (Tex. Ct. App. 1992)); *Curtis v. Ziff Energy Group, Ltd.*, 12 S. W. 3d 114, 119 (Tex. Ct. App. 1999).

rather they were employed in Colorado. As such, the agreement was unenforceable.<sup>53</sup>

In, *DoubleClick Inc. v. Henderson*,<sup>54</sup> a New York court held that an agreement not to compete for one year was enforceable, but stated that a more reasonable time frame would be six months.<sup>55</sup> This case dramatizes the severity of an employee agreeing to not pursue his livelihood for a certain period of time. As a consequence, an employee who attains the requisite amount of education and trains professionally for a certain discipline in a computer related industry, can be prevented from working for a certain span of time in the only industry that he has the ability to gain fruitful employment.<sup>56</sup>

### 3. Injunctive Relief Clause

Injunctive relief is available throughout the United States. However, by means of example this section of the article will specifically focus on New York law. Injunctive relief is an equitable remedy awarded for the purposes of requiring a party to refrain from carrying out a particular act or activity.<sup>57</sup> In the technology arena, this can preclude a person from working for a competitor or client in developing a certain technology.<sup>58</sup> This is

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<sup>53</sup> *Id.* at 12 (reasoning that because the employees “did not actually work in all areas covered by the covenant, the trial judge did not err in concluding the covenant did not contain a reasonable restriction of geographical area.”).

<sup>54</sup> No. 116914/97, 1997 N.Y. Misc. LEXIS 577 (N.Y. Sup. Ct. Nov. 5, 1997).

<sup>55</sup> *Id.* at 23 (“[T]he one-year period sought by plaintiff is too long. Given the speed with which the Internet advertising industry apparently changes, defendants’ knowledge of DoubleClick’s operations will likely lose value to such a degree that the purpose of a preliminary injunction will have evaporated before the year is up.”).

<sup>56</sup> *Id.* at 21-22 (reasoning that the former employers in this case would be prevented from working for any company who even marginally advertise through the Internet).

<sup>57</sup> See generally 1 Howard C. Joyce, A TREATISE ON THE LAW RELATING TO INJUNCTIONS § 1, at 2-3 (1909).

<sup>58</sup> *But see, e.g.*, 42 Am. Jur. 2d. *Injunctions* § 68 (“The appropriate duration for an injunction prohibiting the use of trade secret information is the period of time it would take, either by reverse engineering or independent development, to develop the product legitimately without the use of trade secrets.”) (citing *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 941 F.2d 970 (9th Cir. 1991)); see also *Oberg Indus., Inc. v. Finney*, 555 A.2d 1324 (Pa. Super. Ct. 1988)



very vital for the technology employee because the rapid advancement in the technology industry will render the skills of the technology employee ineffectual. Today, it is just a matter of months, if not weeks, that the technology, i.e. software, could be obsolete, thus, making the associated skills obsolete.

However, in order for an employer to demonstrate that he is entitled to a preliminary injunction, the employer must show that he has a probability of success on the merits, danger of irreparable injury in the absence of a preliminary injunction, and there is a balance of the equities in the employer's favor.<sup>59</sup> The New York Legislature added a new subdivision (C) to its Civil Practice Law and Rules ("CPLR") section 6312, effective January 1, 1997, to make clear that the existence of an issue of fact on a motion for a preliminary injunction is not, standing alone, a sufficient basis for denying a preliminary injunction.<sup>60</sup> This provision was implemented to overrule the language of several judicial opinions that held that a preliminary injunction must be denied whenever the party opposing the motion demonstrates that the facts are in "sharp dispute."<sup>61</sup> Although, New York law makes it easier for courts to grant injunctive relief to employers, nonetheless, an employer must establish the following factors:

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(declaring that "an employee's aptitude, skill, dexterity, manual and mental ability, and such other subjective knowledge obtained during the course of employment are not the property of the employer, and cannot be legally protected.").

<sup>59</sup>N.Y. C.P.L.R. § 6312 (McKinney 2002); *See also*, *Aetna Ins. Co. v Capasso*, 75 N.Y. 2d 860 (1990).

<sup>60</sup>N.Y. C.P.L.R. § 6312 states:

Issues of fact. Provided that the elements required for the issuance of a preliminary injunction are demonstrated in the plaintiff's papers, the presentation by the defendant of evidence sufficient to raise an issue of fact as to any of such elements shall not in itself be grounds for denial of the motion. In such event the court shall make a determination by hearing or otherwise whether each of the elements required for issuance of a preliminary injunction exists.

<sup>61</sup> *See, e.g.*, *BR Ambulance Serv. Inc. v. Nationwide Nassau Ambulance*, 150 A.D.2d 745 (N.Y. App. Div. 1989).

**a. Likelihood of Success on the Merits**

The first factor that an employer seeking injunctive relief against an employee must show, is that the employer is likely to be successful on the merits of the case, if litigated. In other words, the employer will ultimately be successful in enforcing the underlying agreement.<sup>62</sup>

**b. Irreparable Harm**

The second factor the employer must establish, to be entitled to injunctive relief, is that the non-enjoinment of the employee would cause the employer an irreparable harm. For instance, when the employer is claiming misappropriation of trade secrets, generally there is a rebuttable presumption in favor of misappropriation.<sup>63</sup>

**c. Balance of Equities**

The final factor that an employer must show, to be entitled to injunctive relief, is the balance of equities. That is, in order for a court to grant injunctive relief, the balance of the scale must tilt toward the side of the employer – the employer’s financial interest will be weighed against the financial interests of the employee.<sup>64</sup>

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<sup>62</sup> *Doubleclick*, 116914/97, 1997 N.Y. Misc. LEXIS at \*3.

<sup>63</sup> *Id.* at \*4 (“Irreparable harm is presumed where, as in *Doubleclick*, trade secrets have been misappropriated.”) The court found that the defendants had “offered nothing to rebut that presumption.” *Id.*

<sup>64</sup> *Id.* at \*20. Holding:

[The] plaintiff demonstrated that the balance of equities tipped in its favor. Doubleclick operates in a competitive . . . business environment where the use of its proprietary information could cause it real harm. Defendants have not demonstrated that Doubleclick has acted tortiously against them or is otherwise without ‘clean hands’ . . . . By contrast, equity does not favor the employee who seeks to breach his fiduciary duties to his former employer.

*Id.*

## V. CONCLUSION

In light of the current down turn of “Dot Com,” i.e. internet related companies, demand for technology related positions has dissipated. Therefore, an employee may not have much negotiable leverage to ensure that the clauses are properly drafted to protect his interests because he may desperately want the position. If the employee persists in converting the acceptance into a full-blown contract negotiation, he or she may lose the position to another employee who is eager to sign an adhesion agreement.<sup>65</sup> Thus, a more favorable employee-drafted agreement with more beneficial terms and conditions, including salary, vacation, bonus, etc., may hinge upon supply and demand in the marketplace at any particular point in time.

However, it is important for employees of technology related companies to know what to look for before they sign their employment agreement. It is strongly recommended that prospective employees should consider consulting with an attorney before signing a detailed employment agreement so as not to sign away any basic rights without realizing it. In the event that the employee is signing the agreement alone, he or she should beware of non-compete clauses, jurisdiction clauses, which spell out where disputes will be handled, and arbitration clauses which spell out how disputes will be litigated. These simple precautions could have far-reaching effects. A lack of precautions could render the employee unable to work in his or her home area in the technology field he or she is trained in, or settle a dispute in his or her best interests.

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<sup>65</sup> See *Circuit City Stores, Inc. v. Adams*, 279 F.3d 889, 893 (9th Cir. 2002) (“A contract of adhesion [is] a standard-form contract, drafted by the party with superior bargaining power, which relegates to the other party the option of either adhering to its terms without modification or rejecting the contract entirely.”).

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