protecting your company's assets and interests

the importance of getting it right from the start

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Introduction

In today's increasingly crowded, rapidly changing and incredibly competitive business environment, company directors and company owners are more than ever reliant on those material and immaterial aspects of their company that set them apart from other, similar companies and provide the company with its competitive advantage in the marketplace. Assets such as a company's brand name, patented inventions, trade secrets, customer data base and skillful employees may in this regard prove of immeasurable value, and must be protected and safeguarded by the company at all costs. This, of course, requires companies to not only be able to identify their most valuable assets but also to take all of the steps required to ensure that these valuable assets are optimally protected and safeguarded from any potential threat, misappropriation or third party-infringement.

Yet, all too often, when faced with a potential infringement or misappropriation, companies find themselves woefully underprepared in terms of risk management. This may prove highly detrimental to the company's best interests.

In this article, we will provide guidance on the most valuable assets of a company, and discuss the steps that should be taken by any company director to ensure that these assets are afforded as much protection as possible from both a US as well as a European perspective. Within this European perspective, we will focus mainly on the Netherlands.

Step 1: Protect your Intellectual Property

The first step any company director should take is to identify – and ensure the protection of – the company's intellectual property. The intellectual property of a business will be comprised of many facets, including, for instance, its innovations and inventions, but also its brand name and logos. A company relies on its intellectual property to set their business apart from other, similar, businesses, as well as to communicate their unique value to their customers.

Any company director should make him- or herself acquainted with the most common types of intellectual property, and ensure that these types of intellectual property are afforded optimal protection within their company.

Patents

Technical products, processes or other inventions or innovations of businesses may qualify for patent protection. Once granted, a patent allows a company to prevent others from making, selling, or importing the patented invention without permission, until the patent expires. Often, such permission will be granted in return for monetary compensation, allowing the company to profit financially from its invention or innovation. Entering into such 'license agreements' may prove to be highly financially rewarding for the company.

Generally, a patent will be granted for inventions if the invention is new, has potential for industrial application and represents an 'inventive step' over what was previously known. It may be an improvement of some aspect of a pre-existing invention.

In the Netherlands, as well as most other European countries, patents are granted on the basis of a 'first-to-file system'. This means that if patent applications are filed for similar or the same inventions, the patent will be granted to the party that was the first to file. For this reason, it is crucial for businesses to file for a patent as soon as possible, to prevent competitors from discovering the details of their inventions and filing for similar patents. Patents are typically granted for a period of twenty years. Upon the end of this period, the invention will no longer be protected and becomes part of the public domain.

For companies operating in multiple countries within the European Union, it might be worthwhile to obtain a European patent. A European patent allows its owner to obtain patent protection in multiple European countries at the same time.

In the United States, unlike most European countries, patents are not necessarily granted on the basis of a 'first-to-file system' unless one party has filed and been granted their patent before the other has even filed.

Instead, when multiple patent applications are filed for similar inventions, generally the patent is granted to the party that proves it first invented the claimed invention. In the US, patents typically run for twenty years from the date of the patent application. The application process may take a few years, so the patent will last for less than twenty years after it is actually issued.

In addition, in the US, employees' inventions may be considered property of the employee, even if created during their employment. It's very important for US employers to have their employees sign intellectual property assignments, to cover all patentable designs and works that may be created during employment.

Trademarks

Effective brand communication is crucial for any company. Brand names, logos or even product packaging communicate the value of a company to its customers and may therefore prove valuable assets. These assets may qualify for trademark protection.

In the Netherlands, as well as most other European countries, trademarks are granted on a 'first-to-file' basis. This means that whichever company applies first will generally be granted trademark protection, regardless of whether this business was actually the first to use the logo, name or other sign subject to the trademark application. Companies should therefore be sure to file for trademark protection as soon as possible. Although most trademarks expire in ten years, they can be renewed indefinitely.

In the United States, unlike most European countries, trademarks are granted on a 'first-to-use' system instead of a 'first-to-file'. Unregistered trademarks have some common law protection, but registering a trademark with the USPTO offers more substantial protection. If you are the first-to-use, but someone else registers the same trademark with the USPTO, you will still be entitled to use that mark in the manner which you had already been using it, but you won't be able to expand the use of that mark. A first-to-use unregistered mark will maintain priority in its geographical area where the mark has been used, but will lose any argument for priority in other geographical areas to the holder of the registered mark. Like in the Netherlands, registered trademarks typically expire after ten years, but can be renewed indefinitely, so long as they are still in use.

Trade secrets

Any piece of valuable information that is not known by the public, has commercial value and is being kept secret by the business may be considered a trade secret, and consequently afforded protection. Trade secret protection arises automatically in Europe and is of indefinite duration.

In the Netherlands, as well as most other European countries, the recognition and protection of trade secrets is a relatively recent development, brought on in part due to directives of the European Union. As a result, many company directors are unaware of the protection afforded to their company's strategies, marketing plans and other sensitive information, and the possibilities they have to prevent – or end – unlawful acquisition or disclosure of these and other trade secrets.

In the United States, the Defend Trade Secrets Act of 2016 (DTSA) amended the Economic Espionage Act of 1996 to establish a private civil cause of action for the misappropriation of a trade secret. Prior to this amendment, the Department of Justice was the only party who could prosecute for a trade secret theft offense. Under the DTSA, companies can now bring their own cause of action and ask the court to either order that the misappropriation of the trade secret stop, be protected from public exposure, or order the seizure of the trade secret. The US Supreme Court has not yet heard a DTSA claim, and the various federal circuits are interpreting DTSA claims in different ways so far.

In addition to this federal cause of action, most states have their own laws on the misappropriation or theft of a trade secret. Many states have adopted the Uniform Trade Secrets Act ("UTSA") in whole or in part, although some states have not. In the years since the DTSA was enacted, many federal courts seem inclined to lump together UTSA state claims and DTSA federal claims into one cause of action. In addition, in states that are hostile towards restrictive covenants, employers are generally more likely to be successful in a DTSA/UTSA claim. If a state is less hostile towards restrictive covenants, an employer would be expected to have non-disclosure agreements in place, and is less likely to be successful on a DTSA/UTSA claim.

Copyright

Copyright protection is granted to literary, musical and artistic creations in the form of, for instance, books, movies, music or software.

Contrary to patent protection and trademark protection, which companies must apply for, copyright protection arises automatically in most European countries, as long as the creator of the work can establish that the work is both original and expressed in a tangible medium. Registration of a copyright is no formal requirement. It is important to note that in some European countries, the Netherlands among them, literary, artistic and musical creations created by employees of a company will not automatically be considered the intellectual property of the company but, rather, of the employee.

In the United States, similar to most European countries, you do not need to register your work to be protected by copyright law. The Copyright Act of 1976 provides that as soon as the work is created (assuming it fits the criteria), it is copyrighted – no registration necessary. However, in order to bring an action for infringement against someone, you will have to register the copyright. Again similarly to the Netherlands, literary, artistic, and musical creations created by employees will be considered the intellectual property of the employee, unless assigned to the employer by a Work Made For Hire agreement.

Step 2: Work with NDAs

While an important first step for company directors is to assess the intellectual property assets of the company, and ensure that these assets are afforded adequate protection through filing the appropriate applications, obtaining intellectual property protection will often not be enough to safeguard the most valuable assets of the company. This is in part due to the fact that not all sensitive information on the company will qualify as 'intellectual property'. Information on, for instance, the customers or business strategies of a company may not qualify as intellectual property but can still be of great value to a company. Furthermore, it may take some time before applications for intellectual property rights, for instance patent applications, are decided upon by the relevant authorities. It may, for instance, take up to a year for a patent application to be granted. In the meantime, the invention will not be protected. Company directors are often unaware of the risk this poses, as any unauthorized disclosure of the invention after the application is filed but before the patent is granted may result in the patent application being denied on the grounds that the invention is 'publicly known'.

Further steps must therefore be taken by a company director to ensure that the assets of the company are protected from potential misappropriation or infringement. These steps include ensuring that any party who has access to the company's most sensitive information – for instance information regarding a company's customers or marketing strategies – are bound by confidentiality obligations with regard to this information.

Non-disclosure agreements (NDAs) should therefore be concluded between the company and any party who has access to the company's confidential information. Employees, too, must be bound by confidentiality obligations. Although companies may ask their employees to sign separate NDAs, the employment agreement itself may also contain a confidentiality clause. Penalty clauses (often called liquidated damages clauses in the US), stipulating that in case of a breach of its confidentiality obligation, the responsible party will automatically owe a contractually agreed upon sum of money to the other party, should always be included.

It is important for company directors to not only work with NDAs and include confidentiality clauses in employment agreements, but to also be mindful of the (significant) differences between the US and several European countries in this regard.

In the Netherlands, NDAs and confidentiality clauses in employment agreements may very well be interpreted in a very different way by the Dutch courts than would be the case in the US, and may for this reason be less effective if based on a US-model. Any Dutch court will first assess whether the confidentiality obligations laid out in the NDA are reasonable and fair, and may for this reason set aside or significantly reduce penalty clauses. Furthermore, as opposed to some US jurisdictions, punitive damages are not recognized in the Netherlands. If a penalty clause is not included in the agreement, or set aside for being unreasonably high, this means that it is up to the company director to substantiate the damage caused by the violation of confidentiality, which may prove to be rather difficult and may result in no compensation being awarded to the company.

In the US, a court would evaluate an NDA or confidentiality clause differently, in order to determine whether such a clause is enforceable. A US court may review such aspects as: (1) whether the information being protected is truly confidential or valuable; (2) broadness or narrowness of the terms; (3) consideration; (4) who else has access to this information; (5) disclosures to/from third parties; and (6) other factors. A US court may also choose whether to award an injunction to prevent disclosure (which may be temporary or permanent), and whether to award liquidated damages. This type of lawsuit may also be brought in US federal court under the Defense of Trade Secrets Act.

It is therefore of crucial importance for company directors seeking to impose confidentiality obligations to be mindful of these differences, and to draft these clauses in close consultation with local lawyers.

Step 3: Include non-competition, non-solicitation and social media clauses in your employment agreements

Aside from its intellectual property and its confidential, commercially valuable information, oftentimes the employees of a company are one of its most valuable assets. Skillful, experienced employees with knowledge of the company and its processes may be of immeasurable value to the company, and may form an integral part of its lasting success.

A company's dependence on its employees may, however, also prove to be detrimental to the company. One or more of the company's employees may decide to leave the company in favor of a direct rival, taking with them the experience and knowledge gained at their old company. They may even decide to start a rival business of their own, placing them in direct competition with their old employer. In doing so, valued customers of the company may decide to go with them, or may be prompted to go with them. These are liabilities any company director should be mindful of, and should protect the company against.

Amongst the steps to be taken by company directors in this regard are the inclusion of both a non-competition and a non-solicitation clause in their employment agreements. A non-competition clause prohibits employees of the company from being directly or indirectly active or involved in a business performing similar activities to the activities of the company for a certain period of time after the end of the employment agreement. A non-solicitation clause, on the other hand, prohibits the employee from being active for or having contact with clients and business associates of the employer for a certain period of time after the end of the employment agreement.

Under Dutch law, non-competition and non-solicitation clauses are commonly included in

employment agreements. However, there are some caveats to these clauses that company directors should be aware of.

Firstly, it is worth noting that under Dutch law, non-competition and non-solicitation clauses cannot be included in fixed-term employment agreements with a duration of no more than six months. Any such clause in such an employment agreement will be deemed invalid. While non-competition and non-solicitation clauses may, in principle, be included in fixed-term employment agreements, this is subject to certain conditions. Non-competition and non-solicitation clauses may be included only if the company can demonstrate that it has substantial business interests that require the inclusion of such a clause, and if this justification is included in the employment agreement. Without a written justification or without business interests that can be considered substantial, the clause will be invalid. To avoid discussions as well as lengthy legal proceedings, non-competition and non-solicitation clauses in fixed-term employment agreements should always be drafted in close consultation with local lawyers.

Secondly, while under Dutch law agreements can in principle be concluded orally, non-competition and non-solicitation clauses must always be in writing and cannot be agreed upon orally. Furthermore, a written non-competition and non-solicitation clause may also automatically lapse in some circumstances, for instance in the event an employee is promoted and is offered a new employment agreement. In this case, the non-competition and non-solicitation clauses included in the original agreement will lapse and the company should – again – include written non-competition and non-solicitation clauses in the new employment agreement.

Thirdly, it is worth noting that under Dutch law, non-competition and non-solicitation clauses may not always be effective when it comes to the employee's social media accounts. A former employee may, for instance, continue to send LinkedIn requests to the customers of its former company, while routinely promoting its new company or private messaging them promotional material. Company directors should therefore ensure that non-competition and non-solicitation clauses include these types of activities on these platforms. This can be achieved through the inclusion of specific clauses to this effect, stipulating that the employee may, for instance, not contact customers of its former employer on social media for a certain period of time after the end of the employment agreement. More general social media clauses should be included as well, stipulating that the employee may not discredit its employer on social media and may not post – overtly – hateful or otherwise inflammatory messages that could reflect badly on the company. In the event a dispute arises between the employer and the employee with regard to appropriate social media use, the Dutch courts will weigh the fundamental right of freedom of expression of the employee against legitimate interest of the employer.

Lastly, company directors should note that under Dutch law, a non-competition or non-solicitation clause may be deemed unreasonably burdensome for the employee, and hence invalid. This may be the case, for instance, where the term of the non-competition or the non-solicitation clause is deemed by the Dutch courts to be unreasonably long. Penalty clauses included in the non-competition and non-solicitation clauses may also be deemed unreasonable, and consequently ineffective.

In the United States, employment is generally at-will, and many employees do not have written employment agreements. If an employer wants to implement non-competition and/or non-solicitation requirements for an employee, that must be done in writing. However, each state has its own laws and requirements for non-competition clauses. The general movement in the United States is away from non-competition clauses and other restrictive covenants for employees (although they are usually enforceable against the seller of a business and in certain other circumstances). Some states do not allow non-competition clauses or agreements at all (such as California); some require significant consideration, such as a full year's compensation (Massachusetts and other states); and some just require reasonableness of time, type of restriction, and geographic scope (Michigan and many other states). Some states (including Maryland, Illinois, and Washington) have recently implemented income thresholds for non-compete and non-solicitation agreements, where these types of agreements cannot be used for employees earning under a certain income threshold (ranging between $32,500-$100,000 per year, depending on the state).

Colorado recently enacted criminal penalties for violations of its restrictive covenant law. In Colorado, it's unlawful to use force, threats, or intimidation to restrict competition. Both entities and individuals can be held liable, and potential sentences include both fines and jail time, as a class 2 misdemeanor. In Colorado, there are only 4 general situations where non-compete agreements can be used: sale of a business; protection of trade secrets; recovery of educational/training expense for employees; and executive or management personnel.

California is another very restrictive state and generally prohibits all agreements in restraint of trade, with the limited exceptions of the sale or dissolution of a business (typically when goodwill is a large component of the business) and where employers attempt to restrain employees' competitive use of trade secrets.

In 2021, President Biden issued an executive order asking the Federal Trade Commission to review whether to prohibit the "unfair use" of non-competition agreements. It's unclear what effect this may have on non-competition agreements in the US in general, and whether state or federal law will control in particular situations.

In many US states, there is often less restriction of non-solicitation clauses, and some employers are moving in the direction of using non-solicitation clauses instead of non-competition clauses. In most states, employers may generally prohibit their employees from soliciting customers (past, present, and sometimes even prospective) for a certain period of time after their employment ends. Employers may also prohibit their employees from soliciting co-workers (past or present) to join them in starting a new venture. As in the Netherlands, it may be difficult for an employer to prevent general solicitation by social media (including LinkedIn) or other general marketing.

To be enforceable, non-solicitation agreements (or clauses) have to be in writing and must also be enforceable in the particular state where the employee works. As under Dutch law, a particular clause or agreement may become void if the employee enters into a new employment agreement with the same employer, so employers should pay particular attention to maintaining these agreements in full force and effect.

Many companies in the US now have remote workers in numerous states. Where an employee and an employer are based in different states, the employee's state will generally govern for employment law purposes. Sometimes the employer can use a choice of law provision in an employment agreement, but not all states permit that. In general, if a US employer has employees in multiple states, the employer should either consult counsel in each state, or try to determine which state is most restrictive (typically California) and comply with that state's laws. Employers should also be cautious about knowingly including provisions that may be enforceable in some states and unenforceable in others, because that may cause the whole agreement to be void – or the employer to have some liability – in certain states.

Conclusion

In this article, we have discussed some of the steps that any company director can – and should – take in order to ensure that the company's most valuable assets are afforded as much protection as possible.

Of course, there are many more steps to be taken by company directors. The specific steps to be taken by a company director to ensure that the most valuable assets of a company are afforded maximal protection, will be determined to a significant extent by the type of company, as well as its size, core activities, sector and business strategies. There is, unfortunately, no uniform roadmap to be followed in this regard.

However, now more than ever, proactive and assertive action by company directors is required to ensure that the interests of the company are adequately safeguarded and protected.