

---

January 2008

## People Aspect of Entrepreneurs: Personal Service Contacts with Key Personnel including Non-Compete Clauses, Methods of Reimbursement for Company Success, Incentives (Profit-Sharing or other), and Effect of Immigration Restrictions on Entrance of Possible

Benjamin W. Jeffers

Follow this and additional works at: <https://scholarlycommons.law.case.edu/cuslj>

 Part of the [International Law Commons](#)

---

### Recommended Citation

Benjamin W. Jeffers, *People Aspect of Entrepreneurs: Personal Service Contacts with Key Personnel including Non-Compete Clauses, Methods of Reimbursement for Company Success, Incentives (Profit-Sharing or other), and Effect of Immigration Restrictions on Entrance of Possible*, 33 Can.-U.S. L.J. 160 (2007)

Available at: <https://scholarlycommons.law.case.edu/cuslj/vol33/iss1/27>

This Speech is brought to you for free and open access by the Student Journals at Case Western Reserve University School of Law Scholarly Commons. It has been accepted for inclusion in Canada-United States Law Journal by an authorized administrator of Case Western Reserve University School of Law Scholarly Commons.

Number one: it provides sales, number two: it is a source of executive and managerial talent, and, three: it has always been managerial rather than entrepreneurial. It has always been rather unique in its innovative and technological contributions.

All of you have there in front of you a brochure called Northeast Ohio, and if I could ask you to open up to the center and look on the right-hand side. It reminds us that Northeast Ohio is a link to international business. The graph or chart or map on the right-hand side, in the middle there, also is very illustrative in that it shows us that Ohio and Canada are inextricably tied together.

There is a mutual interdependency in business, and many of us consider the Southern Canadian, Northern Ohio region, Northern United States and Midwest region as one economic unit, not two. So I think it is very fitting that we have this conference and presentation today to reinforce the oneness of that economic unit.

We are very fortunate to have with us this morning two presenters who are extremely experienced and extremely knowledgeable. I am sure we will all benefit from them. One of the principals I like to see sometimes is what I call three-way communication. Hopefully, one way is, from the three of us to all of you. Equally important I think is from all of you to us – your questions – and then sharing three-way communication participant to participant. So with no further delay, I would like to ask Benjamin Jeffers to introduce himself and to give the appropriate background and presentation followed by John Craig, our visitor and guest, pleased to have him from Canada.

Ben?

#### UNITED STATES SPEAKER

*Benjamin W. Jeffers\**

MR. JEFFERS: Good morning. I am very happy to be here. I want to thank the Institute for letting me come and speak this morning.

---

\* Mr. Jeffers has experience in complex business disputes for both plaintiffs and defendants, at trial and appellate levels of state and federal courts, as well as other forms of alternative dispute resolution. His practice focuses on commercial matters and class actions, with a particular emphasis on automotive OEM/supplier disputes, antitrust and other unfair trade practice claims, and franchise and distributorship cases. Mr. Jeffers also has significant expertise with insurance company guaranty fund laws. He has successfully represented clients in many areas of litigation. Mr. Jeffers received both B.A. and J.D. degrees from the University of Michigan.

I have a litigation background, and my specialization is in commercial litigation. I have experience in a lot of supply issues, particularly when they rise to a dispute level. I also spend a fair amount of time working with small businesses, dealing with issues of non-competes, employment situations, and company secrets. Hopefully – and part of what I enjoy – is counseling and providing guidance that helps them avoid litigation. Certainly, my specialization is getting involved when there is a dispute. I come from Detroit, and I am one of the few that can say when I look across the border to our colleagues, I am actually looking south. That is a little known fact that has tripped up a politician or two here and there, and it is a fun place to be.

The people aspect of entrepreneurs is potentially a very broad topic, and what I decided I would like to do this morning is just address a couple of distinct issues. All of these things are things that I think entrepreneurs or business venturers need to think about when they are dealing with personnel decisions.

Of the three things that I want to speak about, first, is very briefly some current events and immigration issues. Candidly, this is not my area of specialization, but I find it very fascinating and interesting – the policy debate going on involving immigration and some of the real world impact of that policy debate.

Second: protecting a venturer's trade secrets. Really I just want to touch upon the importance in an entrepreneurial setting, or any small business setting, of putting the right protections and measures in place to protect your company's secrets with respect to key employees and other stakeholders of your business.

And last, again, I am just going to touch upon an area that I have some familiarity with but certainly not expertise, which is compensation. I want to just address a few of the trends in U.S. executive compensation.

I recently read a little report that was published by a company called Interior Software Company. They were identifying some trends of small U.S. businesses. One of the trends that they had identified was classifying what they call a new breed of entrepreneurs, which they indicated would include people who are near retirement age –

lot of people. This is meaningful coming from Detroit – displaced from their jobs, leaving their jobs earlier than they had anticipated, earlier in their careers and starting something new.<sup>3</sup> More women are becoming entrepreneurs.<sup>4</sup>

---

<sup>3</sup> Institute for the Future, *Intuit Future of Small Business Report, First Installment: Demographic Trends and Small Business* 3-5 (Jan. 2007), available at [http://http-download.intuit.com/http.intuit/CMO/intuit/futureofsmallbusiness/SR-1037\\_intuit\\_SmallBiz\\_Demog.pdf](http://http-download.intuit.com/http.intuit/CMO/intuit/futureofsmallbusiness/SR-1037_intuit_SmallBiz_Demog.pdf).

<sup>4</sup> *Id.* at 7-8.

Then the report also noted a continuing trend of immigrant entrepreneurs as being one of the fastest growing segments in, certainly, small business ownership.<sup>5</sup> It attributed this to a number of factors, some of which may include trying to steer around traditional barriers of employment when you come to the U.S., including not having corporate contacts, English language skill barriers, not having experience with large companies and really noting that starting a business in some respects may be easier than trying to get a job in your field in the US.<sup>6</sup> The report went on to comment that the trend may depend in large respect on how this policy debate plays out.<sup>7</sup> I think that is true to a degree. I think that whether or not immigrants to this country, or even Canada, can come here and establish an entrepreneurial venture I think is one topic.

One of the things in which I do see a potential problem is in establishing U.S. ventures or entrepreneurs trying to get access to highly skilled workers who are foreign born coming to the U.S. to work here, and the need for U.S. companies to attract these highly skilled workers.

I am going to get to just one example. Before I do, I also want to note that in Tab 3 of your materials – this is not material that was keyed for today’s preparation – but there was additional data. I believe it was called Trend Setter. And I noted in looking through it that in this Trend Setter barometer data they had polled some CEOs of vast growing businesses, and that one of the single most important challenges a business will face in 2007, number one on that list, was finding and entertaining qualified employees.<sup>8</sup>

The data went on to mention the top three wild card issues in 2007: 47 percent mentioned a shortage of qualified workers.<sup>9</sup> One example of this is somewhat recent, and this is the H1-B visa shortage<sup>10</sup>, my term.

U.S. businesses use H1-B visas as a means of employing foreign-born workers with specialized knowledge – scientists, engineers, and computer programmers.<sup>11</sup> Certainly, there are a myriad of other visa programs and mechanisms for non-immigrants and immigrants alike to come to the U.S. and work.<sup>12</sup> I am not going to go through all of them in any degree, but I

---

<sup>5</sup> *Id.* at 8.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 9.

<sup>8</sup> PriceWaterhouseCoopers, TRENDSETTER BAROMETER: BUSINESS OUTLOOK 2Q 2007 3 (2007) available at <http://store.barometersurveys.com/docs/2Q%202007%20Trendsetter%20Business%20Outlook%20PricewaterhouseCoopers%20FINAL.pdf>.

<sup>9</sup> *Id.*

<sup>10</sup> See Jared Leung, *Understanding and Managing the H1B Visa Cap*, INDUSTRY WEEK (June 28, 2006), available at <http://www.industryweek.com/ReadArticle.aspx?ArticleID=12223>.

<sup>11</sup> *Id.*

<sup>12</sup> See *id.* (listing five options, including hiring within US).

wanted to touch on this example as perhaps being illustrative of some problems we have and how the policy debate needs to focus on it.

The key here for the H1-B visas is that there is an annual limit of 65,000 for new visas every year.<sup>13</sup> These applicants have to have a B.A. degree, and there are another 20,000 who have to have a U.S. Master's Degree.<sup>14</sup> Petitions are filed by U.S. businesses as of April 1st of every year for the following fiscal year – U.S. Government fiscal year, October 1 through September 20th.<sup>15</sup> So there is really a rush to file.

The date this year was April 2nd, which was a Monday, and the U.S. Citizenship and Immigration Services announced that they had received more than enough petitions on that very day to satisfy the count for the entire year.<sup>16</sup> I just picked up the press release, and it is notes they had received over 150,000 H1-B petitions on April 2nd, the day that you could actually file, so the cap was reached.<sup>17</sup> They will have a random selection process to determine which cases are actually accepted, and everyone else will have to wait another year.<sup>18</sup> I think this is really an interesting problem.

Talking with Jerry before the program, I asked him how his company deals with some of these issues. He said, well, you know, we are global and have facilities in so many different parts of the world, and if we want to bring people over here, there are other visa programs that might get by, the L1-B for example.<sup>19</sup> Or there may not be the need to bring workers over here to make products if, in fact, you have the facilities abroad and are going to have to hire workers there and make the product there.<sup>20</sup>

But if you are a U.S. business relying on skilled workers and you cannot find enough in the United States, this is going to be a real issue. I think what

---

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

<sup>14</sup> Press Release, U.S. Citizenship and Immigration Services, USCIS Update: Information to Help Complete and Submit I-129 Petitions to USCIS Services Centers for FY 2008 H-1B Cap Cases (March 27, 2007), available at [http://www.uscis.gov/files/pressrelease/H1B\\_I129Info\\_032707.pdf](http://www.uscis.gov/files/pressrelease/H1B_I129Info_032707.pdf).

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

<sup>16</sup> Press Release, U.S. Citizenship and Immigration Services, USCIS Reaches FY 2008 H-1B Cap (April 3, 2007), available at <http://www.uscis.gov/files/pressrelease/H1BFY08Cap040307.pdf>.

<sup>17</sup> *Id.*

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

<sup>19</sup> See Temporary Benefits Employment Categories and Required Documentation, U.S. Citizenship and Immigration SERVICES, <http://www.uscis.gov/portal/site/uscis/menuitem.5af9bb95919f35e66f614176543f6d1a/?vgnextoid=229c6138f898d010VgnVCM10000048f3d6a1RCRD&vgnnextchannel=91919c7755cb9010VgnVCM10000045f3d6a1RCRD> (last visited Nov. 11, 2007) (delineating the guidelines for the L-1B intra-company transfer visa).

<sup>20</sup> See Daniel Altman, *Managing Globalization: Economies Have a Stake in Where Companies Find Employees*, INT'L HERALD TRIBUNE (June 6, 2006), available at <http://www.iht.com/articles/2006/06/13/business/glob14.php> (describing how companies are finding workers they need by sending work abroad).

it says about the problem in the United States of U.S. citizens acquiring this sort of specialization education is something for another day, but that's certainly a sub-theme in there.<sup>21</sup>

So there is an obvious barrier here to businesses in the U.S. that need access to this skilled talent pool. Perhaps a little less obvious, but clearly related, is the notion that this sort of policy, if it continues, may force U.S. businesses to go abroad looking for this sort of skilled labor.<sup>22</sup> So this is perhaps another example of U.S. companies needing to go abroad, not necessarily looking for cheaper labor, although that may be true as well, but looking for the right sort of labor.

Particularly in industries and segments where the U.S. wants to champion high-tech industry and the information and technology industries, economic success is crucial.<sup>23</sup> Now, I didn't bring any hard and fast data for you on whether this H1-B shortage has had a sort of doomsday impact, but I did want to highlight for you something that is interesting. This is some testimony by Bill Gates before the Senate Committee on Health, Education, Labor, and Pensions. These were written comments submitted in March of this year. And he – I wanted to highlight some other things he said, and I am quoting:

America will find it infinitely more difficult to maintain its technological leadership if it shuts out the very people who are most able to help us compete. Other nations are recognizing and benefiting from this situation. They are crafting their immigration policies to attract highly talented students and professionals who would otherwise study and work here. Our lost opportunities are their gains.<sup>24</sup>

Mr. Gates goes on to highlight what he sees as the illogic of encouraging the best students from abroad to come over here and study and then taking the exact opposite approach if they want to stay.<sup>25</sup> He knows that, quote, "Foreign students who apply for a student visa to the United States today

---

<sup>21</sup> See *Strengthening American Competitiveness for the 21<sup>st</sup> Century, Before the S. Comm. on Health, Education, Labor, and Pensions*, 110<sup>th</sup> Cong. (2007) available at [http://help.senate.gov/Hearings/2007\\_03\\_07/2007\\_03\\_07.html](http://help.senate.gov/Hearings/2007_03_07/2007_03_07.html) (statement of William H. Gates, Chairman, Microsoft Corporation).

<sup>22</sup> See generally Altman, *supra* note 20 (describing how US companies are already going abroad in search of additional skill sets due to the dearth in the US).

<sup>23</sup> See generally Bruce P. Mehlman, Assistant Sec'y for Tech. Policy, U.S. Dept. of Commerce, *Technology-led Development in the Post-Bubble, Post-9/11, Post-Enron America*, Address at the Louisiana Economic Outlook Conference (Nov. 15, 2002) (discussing why and how technology is vital to Louisiana's regional economic development).

<sup>24</sup> Gates, *supra* note 21, at 10.

<sup>25</sup> *Id.* at 10.

must prove that they *do not* intend to remain here once they receive their degrees. This makes no sense.”<sup>26</sup>

So he is highlighting sort of the obvious problem. He also goes on to address what I think is this notion of businesses needing to follow where the talent pool is. He says,

Barring high-skilled immigrants from entering into the U.S., and forcing the ones that are here because they cannot obtain a visa, ultimately forces U.S. employers to shift development work and other critical projects offshore. This can also force U.S. companies to fill related management, design, and business positions with foreign workers, thereby causing further lost U.S. job opportunities, even in areas where America is strong, allowing other countries to “bootstrap themselves” in these areas and further weakening our global strength.<sup>27</sup>

He concludes on that point by saying, in short, “[W]here innovation and innovators go, jobs are soon to follow.”<sup>28</sup>

I think that’s true, and I think that this issue is an example of the real tension here. We hear a lot in the policy debate about security issues, border issues, and illegal immigrant issues.<sup>29</sup> I certainly have not heard much, or nearly enough, about issues of how this may impact specific sectors, high-tech sectors, and access to skilled workers when U.S. companies desperately want to bring such skilled workers over here.

This is being addressed. Potential reform for this issue is, as I said, being carried out as part of the overall debate of immigration and is in Congress right now.<sup>30</sup> It is part of the STRIVE Act cap for H1-B visas.<sup>31</sup> Under the bill, they would go up.<sup>32</sup> They would eliminate the 20,000 cap for persons with

---

<sup>26</sup> *Id.* at 11.

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> See generally *id.* at 10 (describing that while national security and border security are important policy goals, Mr. Gates believes they can be done in a way that would do less damage to the US’s competitiveness and prosperity).

<sup>30</sup> See, e.g., *Protecting U.S. and Guest Workers: the Recruitment and Employment of Temporary Foreign Labor, Before the Comm. on House Education and Labor*, 110th Cong. (2007) available at <http://edworkforce.house.gov/hearings/fc060707.shtml> (statement of Jonathan P. Hiatt, General Counsel, American Federation of Labor and Congress of Industrial Organizations) (discussing labor issues related to the immigration debate).

<sup>31</sup> See generally *id.*

<sup>32</sup> *Summary of Security Through Regularized Immigration and a Vibrant Economy Act of 2007*, NAFSA: National Association of International Educators 8 (2007), available at [http://www.nafsa.org/\\_/File/\\_/strive\\_summary.pdf](http://www.nafsa.org/_/File/_/strive_summary.pdf).

advanced degrees, and like any other sort of massive overhaul or purported overhaul of any system, there will be political compromises, and there will be other issues.<sup>33</sup>

So it remains to be seen how this particular sub-issue will play out, but stay tuned because I think we will see more in the coming months. I did hear one commentator say that if immigration reform is not addressed this year, it is very unlikely that it will be addressed next year given presidential politics.<sup>34</sup>

Other issues the commentators have indicated need to be addressed. Certainly people who want to work here on a permanent basis are being subject to unnecessary barriers at U.S. consulates or embassies abroad.<sup>35</sup> The tension, of course, is related to security concerns in the post-9/11 world.<sup>36</sup>

Now I am going to switch gears. I want to address the issue of restricted covenants. I wanted to highlight the importance of restrictive covenants and agreements with key employees and stakeholders in your venture, particularly for a startup and the need for awareness.

Yesterday, I recall, Mr. Barber commented about entrepreneurship and how it is inherently relationship driven. He mentioned that the market doesn't issue a PO. People issue POs. Fundamentally, we rely on people. There is, or should be, a link between prosperity and ethics in the workplace.

Well, ethics is certainly – there is one form of honesty, pure and simple – but the people aspects of entrepreneurship as a topic means, unfortunately, that we will run into dishonesty and temptation in the marketplace. That's where you might find yourself talking to someone like John or myself.

I must say, as a litigator – and I was reflecting on another comment I heard yesterday – that perhaps entrepreneurs and bureaucrats don't mix, sort of like oil and water. Well, I can tell you, entrepreneurs and litigators do not make for a better combination either. The individuals that come to see me, the small businesses I worked for grudgingly would come to me, and it usually would be in one of two circumstances. One is where someone has taken something from them, a trade secret or intellectual property or perhaps

---

<sup>33</sup> *Id.*

<sup>34</sup> See generally Farhana Hossain, Ben Werschkul, & Sarah Wheaton, *The Presidential Candidates on Immigration*, N.Y. TIMES, Sept. 28, 2007, available at <http://politics.nytimes.com/election-guide/2008/issues/immigration/index.html> (describing the prior positions on immigration reform of likely presidential candidates).

<sup>35</sup> See generally Jennifer Steinhauer, *Austrian Interns Run Into U.S. Visa Problems*, N.Y. TIMES, Aug. 22, 2007, available at <http://www.nytimes.com/2007/08/23/us/23holocaust.html?partner=rssnyt&emc=rss> (describing the problems an Austrian Holocaust museum worker had obtaining a visa).

<sup>36</sup> See NATL. COMM. ON TERRORIST ATTACKS UPON THE U.S., THE 9/11 COMMISSION REPORT, available at [http://www.9-11commission.gov/report/911Report\\_Ch12.htm](http://www.9-11commission.gov/report/911Report_Ch12.htm) (stating immigration was not a national security matter before 9/11).

brought something to them that they were unaware of in the sense of hiring someone who brought some knowledge and has unwittingly embroiled them in a dispute.

But this is certainly an issue in the increasing and noble workforce and the reality of the digital workforce. Gone are the good old days, perhaps, of photocopying the company's Rolodex and walking out with a customer list. Now you just need a little zip drive, and you can download half the company's information, and you are gone. And commenting on being careful when hiring, this works both ways. You need to be very careful and do your due diligence when hiring employees, who may be bringing trade secrets. Although you may not have done anything wrong, and may not end up being a party to an inevitable lawsuit, it certainly would be a distraction if the key employee just hired was now exposed to litigation risk. There is a myriad of ways to deal with this, covenants not to compete, confidentiality agreements, et cetera.<sup>37</sup> I will just touch upon it very quickly.

Covenants not to compete are agreements between an employer and employee where the employee agrees not to compete for a certain period of time within a certain geographic or industry segment following leaving the employer.<sup>38</sup> Confidentiality agreement, it is just that. It is maintaining company secrets.<sup>39</sup> This may apply when you are dealing with someone who may not be in a position to go out and compete with you after he or she leaves your company, but nonetheless might be in a position to provide company secrets in any event.

Non-solicitation agreements come in two forms: not to solicit customers and not to solicit other employees.<sup>40</sup> The former is harder to enforce, much like non-competes, because it is, in some respects, an inherent restraint on trade.<sup>41</sup> Agreements not to solicit co-employees, may be a little bit easier for the states to enforce.

Who needs this? Well, it depends. There is no one-size-fits-all. I say, at the bottom, not the janitor.<sup>42</sup> Believe it or not, we had a client come to us recently, and they wanted to hire some painters for the summer. And they wanted some non-compete agreements so that these student painters for the

---

<sup>37</sup> See generally Victoria A. Cundiff, *How to Protect Confidential Business & Technical Information*, 719 PRACTICING LAW INST. 85, 87-92 (2002) (describing the different ways which a party can handle covenants not to compete and confidentiality agreements).

<sup>38</sup> See BLACK'S LAW DICTIONARY 392 (8th ed. 2004) (defining non-compete covenant).

<sup>39</sup> See 54A AM. JUR. 2D *Monopolies and Restraints of Trade* § 918 (2007).

<sup>40</sup> See BLACK'S LAW DICTIONARY 1084 (8th ed. 2004) (defining non-solicitation agreements).

<sup>41</sup> See generally 2 LOUIS ALTMAN AND MALLA POLLACK, *Callmann on Unfair Competition, Trademarks, and Monopolies* § 16:44 (4th ed. 2007).

<sup>42</sup> See TAMMY HINSHAW, ET. AL., 54A AM. JUR. 2D *Monopolies, Restraints of Trade, and Unfair Trade Practices* § 854 (2007).

summer couldn't go work for the competitor painting company for the balance of the summer, and we said, "No, no, no. You know, that's not going to work. There is no protected interest there, and it wouldn't be enforceable anyway."<sup>43</sup>

The key is that these need to be reasonable.<sup>44</sup> Non-compete agreements have problems all their own.<sup>45</sup> Generally, courts are loathe to enforce them if they perceive they are going to be un-employing someone who reasonably believed that they were complying. This is the sort of answer that business people can't stand when they come to me as a litigator and they say, "Fine, draft this thing for me. What do I need?"

Well, what's reasonable then? Well, it depends. So if you want to talk more about this with me, I will give you the "it depends" answer. Maybe we can talk about what your business entails. Keep in mind these are contracts, and so you need to check in your jurisdiction on what consideration is necessary.<sup>46</sup>

If you are starting a job with an employer, it is easy. A non-compete can be a condition for employment.<sup>47</sup> If you want to inject a non-compete, you can inject it. If you want to have existing employees sign one, it is a little more difficult.<sup>48</sup> In some jurisdictions, merely maintaining your employment is consideration enough.<sup>49</sup> In other jurisdictions, you need something else.<sup>50</sup>

There is an interesting problem, even in jurisdictions where maintaining your employment is enough. Consider the situation where you are a startup company. You are growing. You have ten employees, ten sales persons – you want them all to sign. Nine sign without a problem. The tenth – let's just say he is your best employee – doesn't want to. Now what do you do? Do

---

<sup>43</sup> See generally RICHARD M. GALLAGHER, ET AL., 42 AM. JUR. 2D. *Injunctions* § 136 (2007).

<sup>44</sup> LAURA DIETZ, ET AL., 17A AM. JUR. 2D *Contracts* § 326 (2007).

<sup>45</sup> See generally Ann C. Hodges, Porcher L. Taylor, III, *The Business Fallout from the Rapid Obsolescence and Planned Obsolescence of High-Tech Products*, 6 COLUM. SCI. & TECH. L. REV. 3, 4 (2004-05) (describing how many commentators have recognized the problem of lack of predictability in interpreting non-compete agreements and how enforcement litigation is encouraged).

<sup>46</sup> See generally Norman D. Bishara, *Covenants Not to Compete in a Knowledge Economy: Balancing Innovation from Employee Mobility Against Legal Protection for Human Capital Investment*, 27 BERKELEY J. EMP. & LAB. L. 287, 317 (2006) ("There is no uniformity in the enforcement of post-employment non-competition agreements among states.").

<sup>47</sup> See generally Ferdinand S. Tinto, Annotation, *Sufficiency of Consideration for Employee's Covenant Not to Compete, Entered into after Inception*, 51 A.L.R.3d 825, 828 (1973) (stating that when the employee executes the covenant at the same time he accepts employment, the latter becomes the consideration for the covenant.)

<sup>48</sup> See generally *id.* (stating that some jurisdictions require additional benefits in consideration for a non-compete covenant for a current employee.)

<sup>49</sup> *Id.*

<sup>50</sup> See *id.*

you fire that employee for not signing that covenant not to compete? That may cause the very harm you are trying to avoid. Keep in mind this person doesn't have a non-compete yet. Yet, if you don't fire that person, or don't take some steps, it may call into question the validity of those other nine.

It is one of these issues where it is tough to have it both ways. So that's something to keep in mind. Again, it depends upon the jurisdiction in the United States how those are dealt with. In the event that you find yourself as an entrepreneur without the right agreements in place, there are some statutory protections: the Uniform Trade Secrets Act has been adopted in nearly all states.<sup>51</sup> It is fine to have these rights, but it is expensive to enforce them.

Having the right agreements and the right protections also doesn't prevent someone from stealing your secrets, and it won't ensure that you will not find yourself in a lawsuit.<sup>52</sup> But, at least, it gives you a framework to start to enforce your rights that may, in some respects, be cheaper than trying to do it merely through statutes.

As an aside, it can also be a criminal violation to steal trade secrets and send them abroad.<sup>53</sup> In Detroit last year, this is just a snippet from a press release involving some former Metaldyne employees – Metaldyne is an automotive supplier – and this is one of these horror stories where it plays out sort of like a novel, where some former employees conspire with a current employee to steal trade secrets and give them to, in this case, a Chinese company.<sup>54</sup> Metaldyne is in the powdered metals industry, and they have a great deal of specialization.<sup>55</sup>

Metaldyne found out that something was going on.<sup>56</sup> They sort of quickly did an internal investigation.<sup>57</sup> They put a package together and gave it to the FBI who arrested these individuals who, by the way, were not that smart.<sup>58</sup>

---

<sup>51</sup> Michael L. Rustad, *The Negligent Enablement of Trade Secret Misappropriation*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 455, 516 (2006).

<sup>52</sup> See generally *id.*, at 481 (stating that federal law enforcement lacks the resources to successfully combat industrial espionage).

<sup>53</sup> *Id.*, at 465.

<sup>54</sup> Press Release, U.S. Dep't of Justice, U.S. Att'y, E. Dist. of Mich., Former Metaldyne Employees Indicted for Theft of Trade Secrets (July 5, 2006), available at <http://www.cybercrime.gov/lockwoodind.pdf>.

<sup>55</sup> See *id.*

<sup>56</sup> See generally Philip Burgert, *Metaldyne Execs Accused of Selling Secrets to China*, AMERICAN METAL MARKET, Feb. 5, 2005, available at [http://findarticles.com/p/articles/mi\\_m3MKT/is\\_44\\_113/ai\\_n9508273](http://findarticles.com/p/articles/mi_m3MKT/is_44_113/ai_n9508273) (stating that the incident came to light after Chongqing, a Chinese company formed by former Metaldyne Vice President of Sales Anne Lockwood, requested a quote from International Truck & Engine Corp. for equipment to make a new connecting rod prototype that had large metal design components created by Metaldyne).

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

There was access to their Yahoo accounts, which indicated, “Dear so and so: Please put these files in this room where company A can get them. This is just going to be great. There will be no way Metaldyne can compete after I take this stuff.” I tried to find out what the results of this were and haven’t been able to figure it out.

Very briefly, I just wanted to spend two minutes because that will, again, exhaust my expertise, talking about some trends and executive compensation. I think this is important for entrepreneurs to be aware of. Even though the press and a lot of the regulations are dealing with CEOs of the large public corporations, I think it is important for smaller and private companies to be aware of the trends.

There were comments yesterday – I think it was David Woolford who mentioned that a good entrepreneur is thinking like a public company in the sense that, if you act public, you will be putting yourself in positions where you are not surprising your stakeholders. Well, some of the regulations that may impact executive compensation may, in fact, end up being best practices for smaller companies or exempt companies.

Sarbanes-Oxley has had an impact. It has had boards of directors delegating responsibility for executive compensation-to-compensation committees of disinterested directors.<sup>59</sup> Enron, again, we see an impact there. You may know that many of Enron’s hiring executives received a substantial amount of preferred compensation.<sup>60</sup> They voluntarily terminated their employment and elected immediate payments of their corporate deferred compensation plans just before the scandal became public.<sup>61</sup> So there are new rules addressing the timing of when you can take advantage of that, and there is a six-month timing gap to try to avoid some of these things.<sup>62</sup>

Changes in SEC proxy rules – I read some comments by the SEC Commissioner that he composed in January of this year – and he just

---

<sup>59</sup> See generally Dennis J. Block, *Public Company M&A: Recent Developments in Corporate Control, Protective Mechanisms, and Other Deal Techniques*, 1587 PRACTICING L. INST. 7, 151 (2007) (stating there is greater scrutiny of executive compensation due to the adoption of Sarbanes-Oxley).

<sup>60</sup> See generally Meredith Downes & Gail S. Russ, *Antecedents and Consequences of Failed Governance: the Enron Example*, 5 CORP. GOVERNANCE: THE INT’L J. OF BUS. IN SOC’Y 584 (2007), available at 2007 WLNR 18643296 (stating that board members at Enron were paid handsomely, and that Enron’s CFO Andrew Fastow earned \$30 million from partnerships enabled by Enron’s suspension of its code of ethics).

<sup>61</sup> See generally *id.* (stating that Fastow, CEO Jeff Skilling, and twenty-seven other Enron executives sold their shares before the company went bankrupt).

<sup>62</sup> See generally *id.*; see also Roel C. Campos, Comm’r, Sec. Exch. Comm’n, Remarks Before the 2007 Summit on Executive Compensation (Jan. 23, 2007), available at <http://www.sec.gov/news/speech/2007/spch012307rcc.htm> (stating that new executive compensation rules will have the effect of focusing executive compensation committees on the details of executive compensation packages).

highlighted that the SEC's focus is not going to necessarily interfere with the level of compensation, but should be in order to make less of it, but just to require more disclosure and more transparency.<sup>63</sup>

He gave a few tips regarding what boards should be thinking about regarding compensation and benefit packages for key individuals. One was to do your homework. As a compensation committee, he indicated that often these committees are not doing a good enough job to really appreciate the variations or the contingencies that may happen.<sup>64</sup> How much money is someone going to get when they walk out the door in various scenarios, change of control, firing, service, insolvency? Some of the new SEC guidance will require narrative explanations of what triggers these payments and exactly the estimated amount.<sup>65</sup> He was recommending negotiating teams for companies, to try to inject a process here and involve disinterested parties, decide what your parameters are, focus on long-term sustainable performance for these employees and less upon short-term benchmarks and really to focus on job jeopardy issues, service issues.<sup>66</sup> What are people getting when they leave?

He didn't use this example, but I think many of us are aware of it: the Walt Disney case, the Mike Ovitz case, where he was fired after fourteen months and walked away with \$130 million.<sup>67</sup> All of us wonder; how on earth can that happen? Well, it happened because that was the deal given to him on his way in.

It was not money handed to him on his way out.<sup>68</sup> Derivative litigation, shareholder litigation, ultimately the Delaware Supreme Court concluded that there was no breach of duty on the part of Disney there, but if you read the opinion, you certainly get the sense, as I did, that they were kind of holding their nose and voting for Disney as they say, begrudgingly saying that this just looked like kind of a sloppy process – how this compensation was decided.<sup>69</sup>

---

<sup>63</sup> *See id.*

<sup>64</sup> *Id.*

<sup>65</sup> *See id.*

<sup>66</sup> *See id.*

<sup>67</sup> *See generally* James B. Stewart, *Partners*, THE NEW YORKER, Jan. 10, 2005, at 46, available at [http://www.newyorker.com/archive/2005/01/10/050110fa\\_fact\\_stewart](http://www.newyorker.com/archive/2005/01/10/050110fa_fact_stewart) (stating that Disney paid Ovitz \$140 million to settle his contract).

<sup>68</sup> *See generally* Brehm v. Eisner, 746 A.2d 244, 244 (Del. 2000), and *In re Walt Disney Co. Derivative Litig.*, 825 A.2d 275 (Del. Ch. 2003) (Disney original shareholder's derivative suit and subsequent history, stemming from Disney's \$130 million severance package to Michael Ovitz).

<sup>69</sup> *See generally* Brehm, *supra* note 68 at 267 (stating that it is understandable that Disney shareholders are upset over Ovitz's package, but ultimately dismissing their complaint without prejudice).

John Craig began his career as a law clerk to Chief Justice Antonio Lamer and Justice

So I will conclude my remarks now and just as I did not attempt to do throughout the presentation, I won't try to tie all those three topics together. But I wanted to highlight for you these are all people aspects of entrepreneurs.

MR. TORMA: Ben, thank you very much. You did a remarkable job of covering a myriad of topics in a short period of time. Thank you very much. John?

MR. CRAIG: If I can do this.

MR. TORMA: While he is doing that, I will comment briefly on non-competes and then later perhaps give a lay person's view of them perhaps from a different viewpoint; that it is just common sense – and it is not as difficult as it could be – when you understand it is not just in the interests of the company; it is really more in the interests, collective interests, of the employees than just the company, and we can cover that later at this time. Thank you.

John?

#### CANADIAN SPEAKER

*John D. R. Craig\**

MR. CRAIG: Thanks. It is a great pleasure to be here. My colleague, Stan Friedman, who would otherwise be here but for a commitment that he could not get out of, suggested that this would be a great opportunity for me to share my thoughts on people issues to a joint Canadian-American audience, and it sounded fun and interesting.

By way of background, I am a partner at Heenan Blaikie, which is a Canadian law firm with a large management side employment practice. We have offices across the country in Vancouver, Calgary, Toronto, Montréal and smaller offices in Québec. We also act for North American and other multinational corporations and we are allied with firms across the globe. My practice includes both large and small American clients and I have a number of Canadian clients who are in the entrepreneurial category.

---

Charles Gonthier of the Supreme Court of Canada in 1994. He joined Heenan Blaikie in 2001 after several years with another prominent Toronto firm. Mr. Craig practises exclusively in the area of labour law at the University of Western Ontario, where he has been teaching since 1999. He is the author of *Privacy & Employment Law* (Hart Publishing, 1999), a book based on his doctoral thesis. He has also published articles related to labour and employment law in the *McGill Law Journal*, the *Comparative Labour Law & Policy Journal*, the *Industrial Law Journal*, the *Review of Constitutional Studies*, the *European Human Rights Law Review*, and the *Canadian Labour and Employment Law Journal*.