

## **EMPLOYEES, SECRETS AND COMPETITION: NON-COMPETES AND MORE**

First Run Broadcast: June 19, 2014

1:00 p.m. E.T./12:00 p.m. C.T./11:00 a.m. M.T./10:00 a.m. P.T. **(60 minutes)**

Most businesses are based on secrets – or at least on confidential information – the loss of which could compromise its success. The information may be how a particular valuable service is provided or a product manufactured. Or the information may be the company's customer list, pricing or cost information, vendor contacts, or even access to key employees. Companies are eager to protect this information by requiring employees to sign non-competition and non-solicitation agreements. The problem is, though they are a good idea, frequently the law disfavors these agreements. This program will provide you a practical guide to the possible – what are protectable interests, what's a reasonable scope of protecting those interests, how can compliance be monitored and how you can increase the enforceability of these agreements.

- Practical planning and drafting of non-competition and non-solicitation agreements
- Protectable interests – customer contacts, pricing information, key employees, and more
- Scope of the protection – what uses of the information are a violation and for how long?
- Planning and drafting to increase the enforceability
- Establishing an effective compliance monitoring system
- What types of employees should you place under a non-competition agreement and at what cost?

### **Speaker:**

**Gregg M. Lemley** is a partner in the St. Louis office of Ogletree, Deakins, Nash, Smoak & Stewart, P.C., where he has an extensive labor and employment law and related commercial litigation practice. He represents employers in a wide range of litigation matters in both state and federal court in disputes involving discrimination based on race, sex, age, religion, disability, national origin and the FMLA, sexual and racial harassment, and retaliation. Mr. Lemley also has a substantial practice assisting employers in the development, implementation and application of harassment, drug testing, family medical leave and a wide range of other personnel policies. Mr. Lemley received his B.A. from Webster University and his J.D. from Washington University School of Law.

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**Employees, Secrets & Competition: Non-Competes and More  
Teleseminar  
June 19, 2014  
1:00PM - 2:00PM  
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# Wrestling with Non-Compete Agreements: Your Strategic Plan



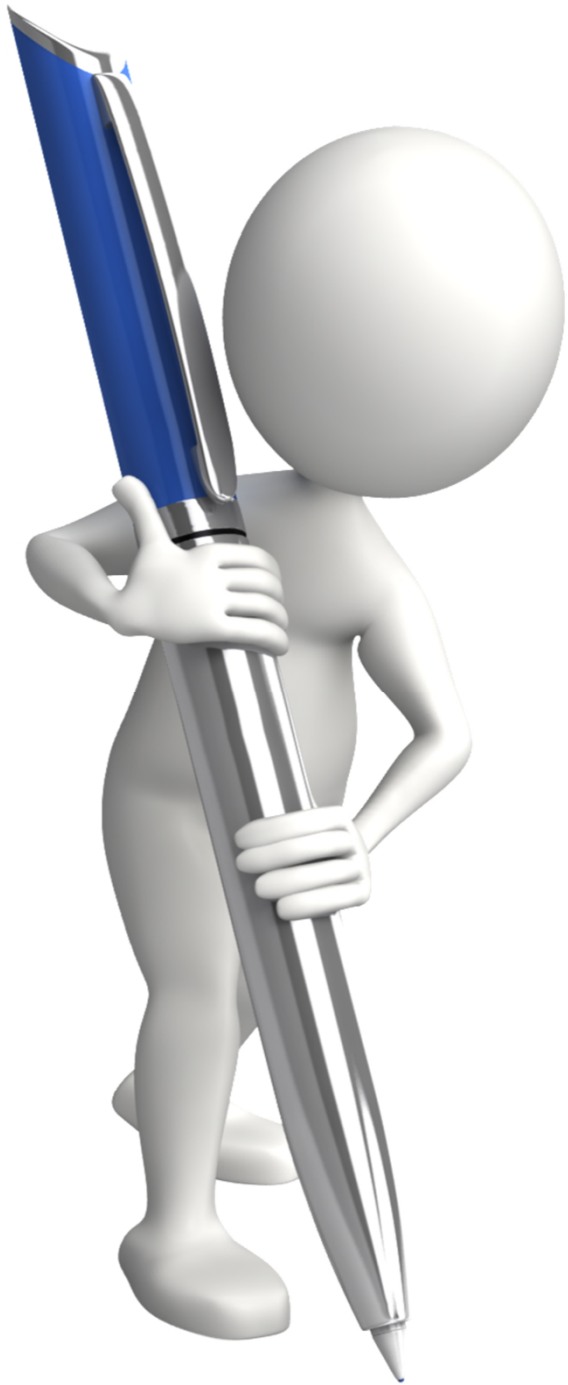
**Ogletree  
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# Introduction

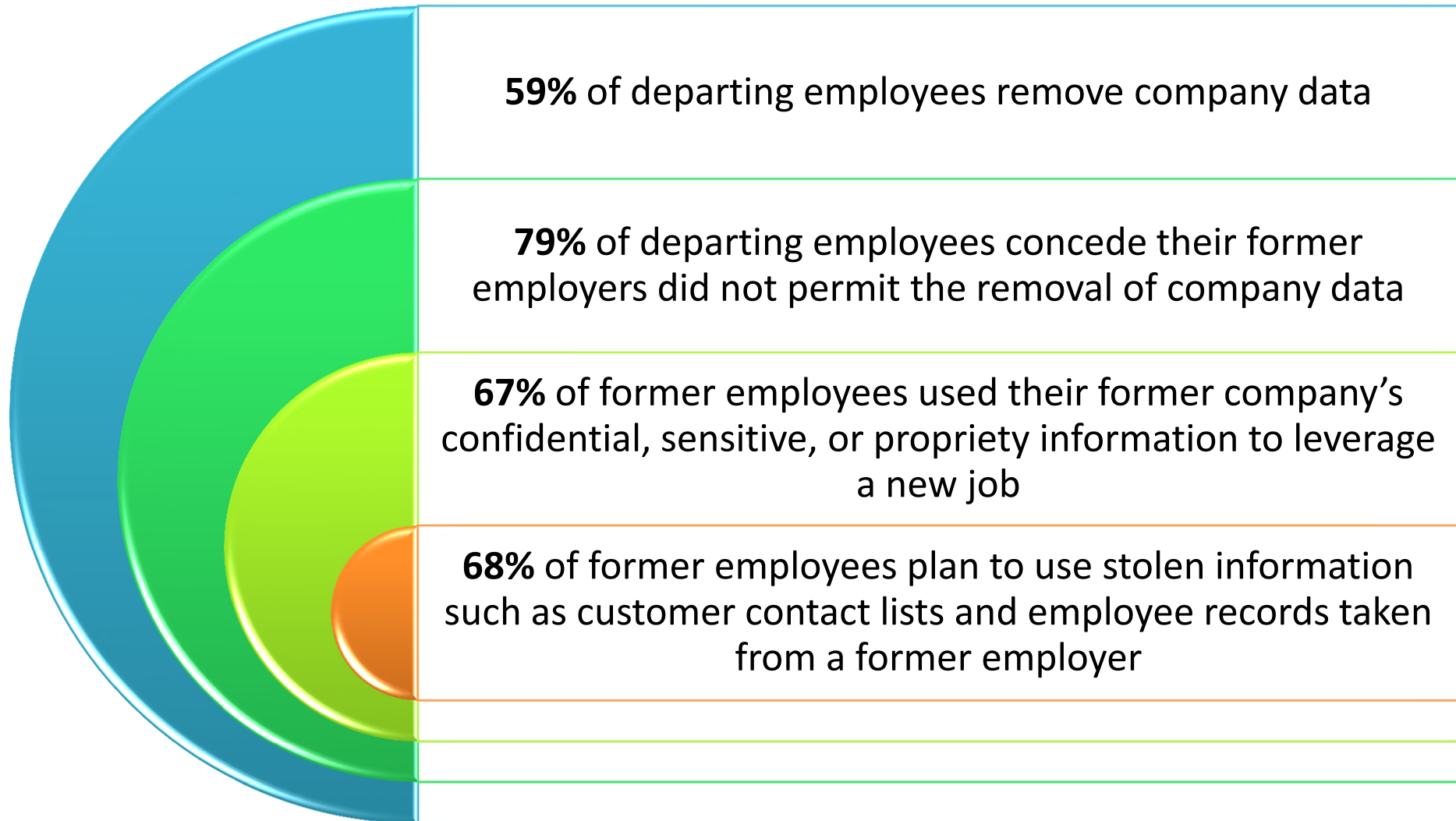
- Why a Non-Compete Agreement?
- Essential Elements of an Enforceable Non-Compete Agreement
- Drafting Considerations
- Enforcing Your Non-Compete Agreement
- Hiring Someone who has Signed a Non-Compete Agreement
- Resigning Employee Going to a Competitor...Now What?

# Non-Competes Generally

- Typically designed to address
  - Solicitation and servicing of clients
  - Solicitation and hiring of employees
  - Competition in designated areas
  - Confidential Information
  - Trade Secrets



# Harsh Realities




Source: *Data Loss Risks During Downsizing--As Employees Exit So Does the Corporate Data*, Presented by Dr. Larry Ponemon, Feb. 23, 2009, © Ponemon Institute.

# The Cold Hard Facts

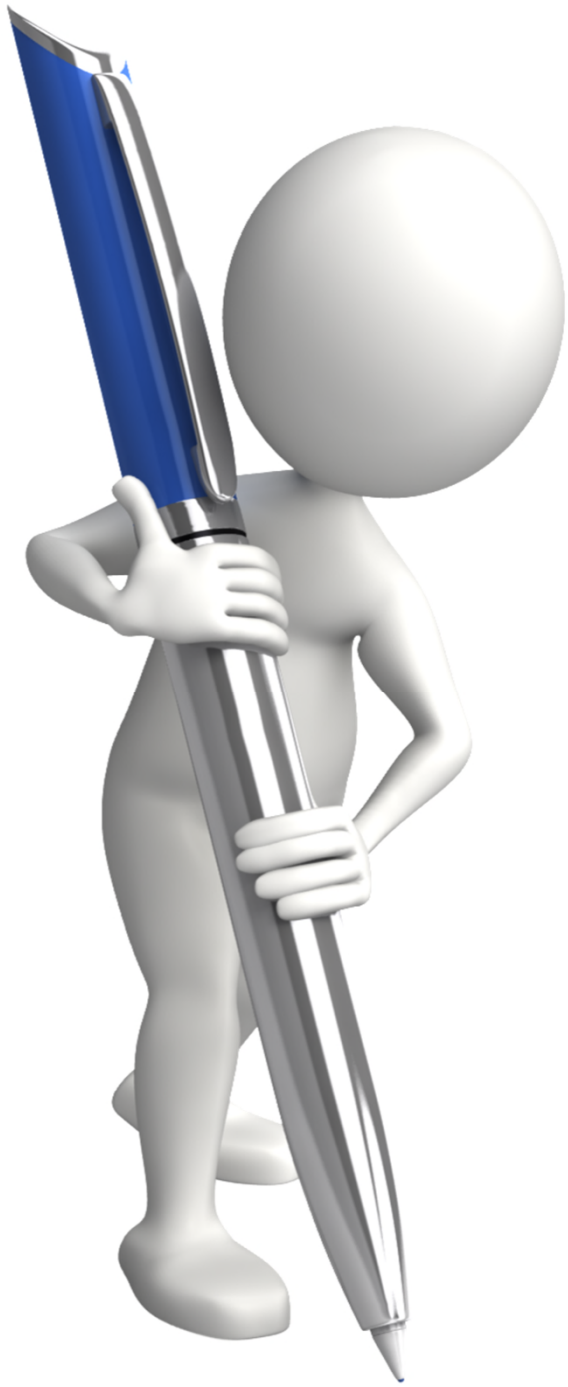


Non-Competes  
cannot stop  
competition



Non-Competes are  
generally  
enforceable where  
they are reasonable  
in most states





# **Why a Non-Compete Agreement?**

# Purpose of Non-Compete Agreements

- When an employee leaves and joins a competitor, the risk of loss to the former employer is high
- These agreements generally prohibit the employee from competing with the employer during or after the termination of employment



# Purpose of Non-Compete Agreements

- State law primarily determines the enforceability of non-compete agreements and states use different criteria to evaluate the agreements
  - Some states may actually prohibit them completely, or place strong restrictions, as a matter of public policy



# **Not Necessary for Every Employee**

## **So, who should sign one?**

- Employees involved in research or product development
- Employees involved in the design, fabrication, engineering and manufacturing process
- Employees who service products made and sold by your company
- Sales and service employees who have regular contact with customers or sensitive customer information

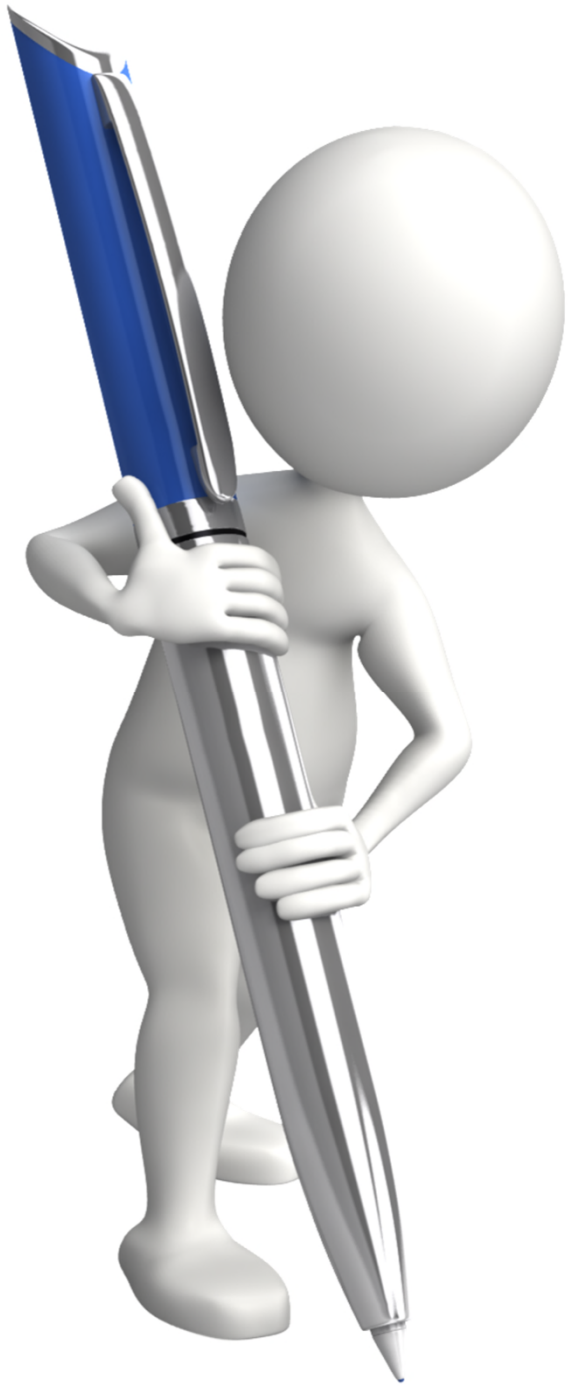


# **Not Necessary for Every Employee**

## **So, who should sign one?**

- Employees with access to sensitive business information or trade secrets
- Employees who have sufficient information about your business that would allow them to start a competing business





# **Essential Elements of an Enforceable Non-Compete Agreement**

# Keys to an Enforceable Agreement

- Protects Legitimate Interests
  - Trade Secrets
  - Customer Contacts
- Reasonable Time
  - (i.e. Not Forever)
- Reasonable geography
  - (i.e. Not The World)
- Consideration
  - What did you give to get?



# Keys to an Enforceable Agreement

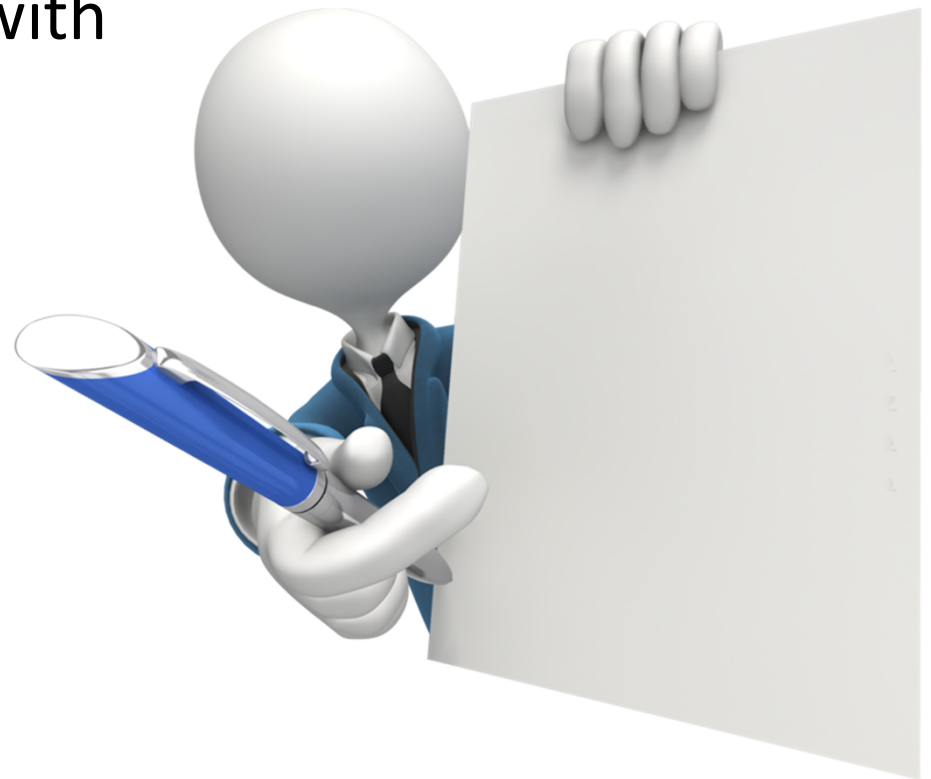
- Narrowly tailored to the interests of the employer
- That the agreement is not harmful to the public or employee





# Covenant Not to Compete

- This is the most restrictive type of covenant an employee and employer can sign. Covenants not to compete typically bar a former employee from engaging in competition with his former employer for a period of time and in a particular geographic region.



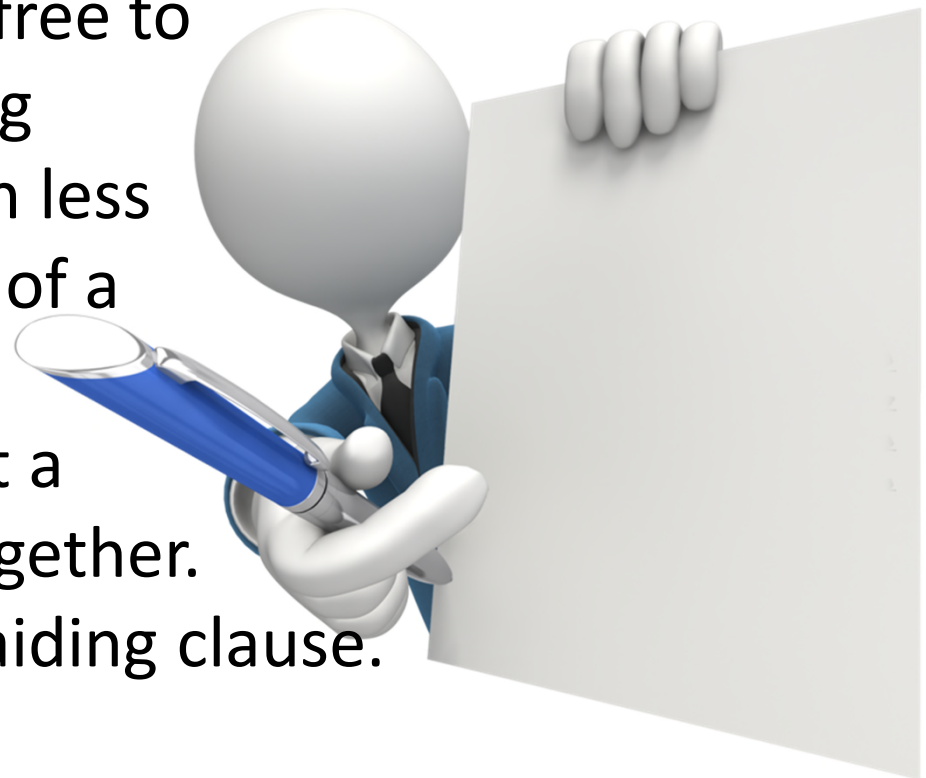
# **What Should the Agreement Say?**

## **Example Language**

“Employee will not directly or indirectly perform services for any business which performs services materially similar or competitive with those provided by the company for a period of xx months in the following geographic area...”

# Non-Solicit as to Customers

- The analysis for a court is different because the former employee is more free to compete in the open market with a no-solicit/no-raid agreement. Because the employee is free to work for anyone (including themselves) there is much less chance that enforcement of a no-solicit/no-raid agreement would prevent a person from working altogether. Also referred to as a no-raiding clause.



# **What Should the Agreement Say?**

## **Example Language**

“I agree that for two (2) years following my employment I will not solicit divert or take away any of the Company’s customers, clients or accounts...”

# Employee Non-Solicitation

- These covenants seek to prevent a former employee from soliciting or hiring the former employer's employees. Employers seek these provisions to prevent employee raiding by competitors. Many employees who leave their employers may want to take an employee with them to their new employer. These provisions are generally enforceable.



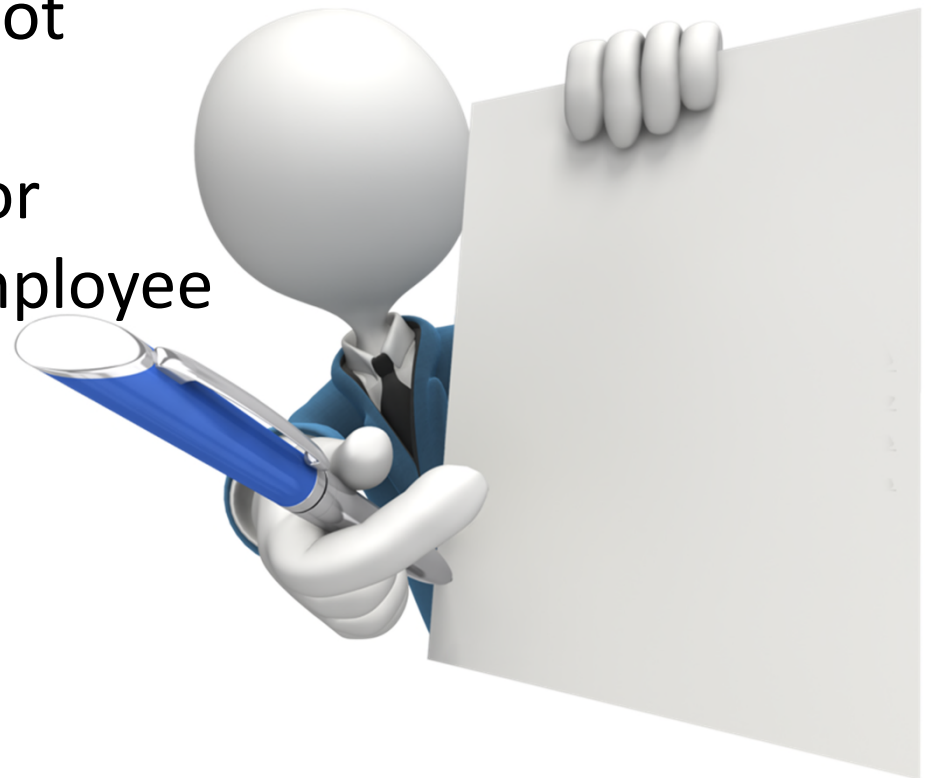
# **What Should the Agreement Say?**

## **Example Language**

“I agree that for two (2) years following my employment, I will not solicit or encourage any employee to leave the Company’s employ...”

# Non-Disclosure Agreement

- The least restrictive covenant is the non-disclosure agreement. Rather than preventing competition or solicitation of clients, this covenant seeks to ensure that the employee does not disclose the employer's confidential information or trade secrets after the employee leaves the employer. Actually enforceable in California.



# **What Should the Agreement Say?**

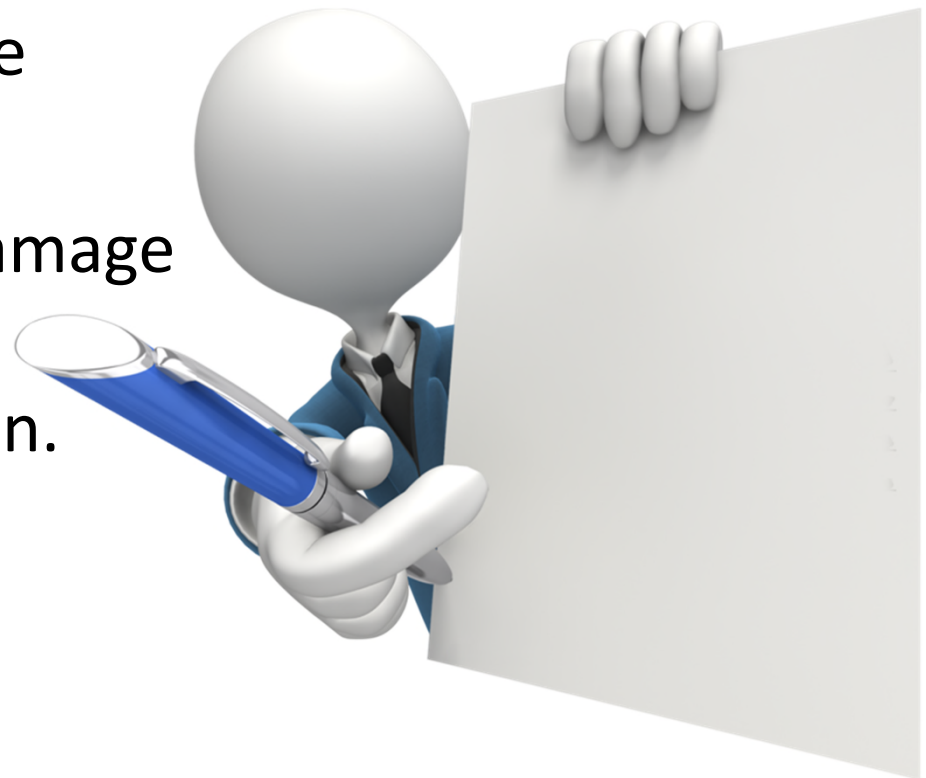
## **Example Language**

“I agree that I shall not disclose, misuse, misappropriate any confidential information or trade secrets except as required in the scope of my employment...”



# Common Confidentiality Provisions

- Acknowledgement of Employee's Receipt of Confidential Information or Trade Secrets.
- Agreement to Return all Such Information.
- Agreement not to Disclose any Such Information.
- Reasonable Liquidated Damage Clauses Related to Breach of Confidentiality Provision.



# Caution: State Law Issues

- State law defines the limits of employee covenants.
- Just because an agreement works in Kansas, doesn't necessarily mean it will work in Nebraska or Missouri.



# **What Should the Agreement Say?**

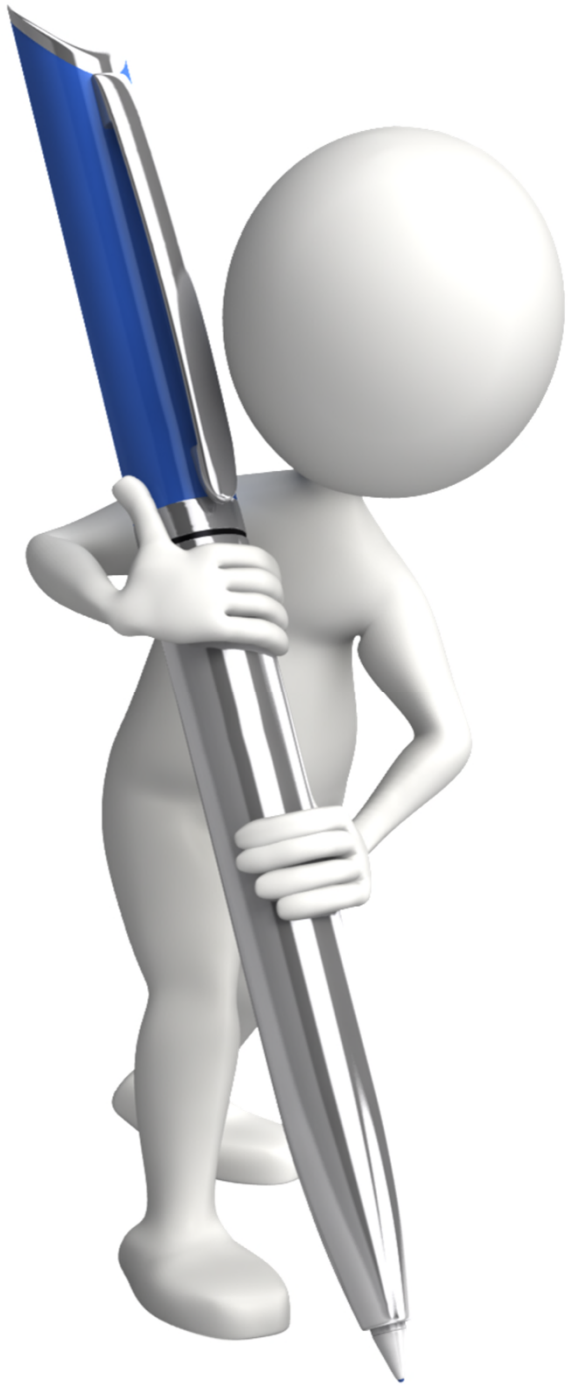
## **Example Language**

Employee agrees that during Employee's employment with Employer, and for a period of two (2) years from and after the termination, for any reason or no reason, with or without notice or cause, of Employee's employment with Employer, Employee shall not in any way compete against Employer, or accept employment or establish any business relationship (including a consulting relationship), direct or indirect, with any business entity in competition with Employer or which plans to be in competition with Employer.

# **What Should the Agreement Say?**

## **Example Language**

During his or her employment with the Employer and for a period of two (2) years following the end of his employment or association with the Employer, the Employee shall not be employed by, work for, or consult for any person or entity, whether or not a competitor of the Employer, in a position in which his or her duties and responsibilities would inherently and inevitably involve the use or disclosure of trade secrets or other confidential business information of the Employer. This prohibition applies irrespective of the location of the person or entity.



# **Drafting Considerations**

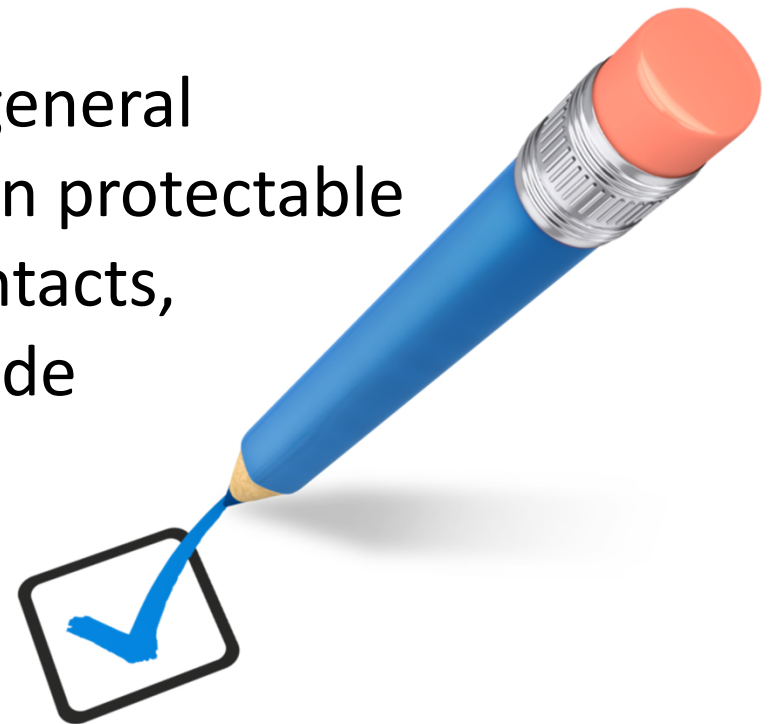
# Before You Start Drafting

- Ask
  - What are you fearful of?
  - What information do you want to protect?
  - Other than the agreement, what else are you doing? (What does the handbook say?)
  - What protocols do you have in place for signing, and exit interviews?
- Think about how the agreement fits with their overall protection plan.



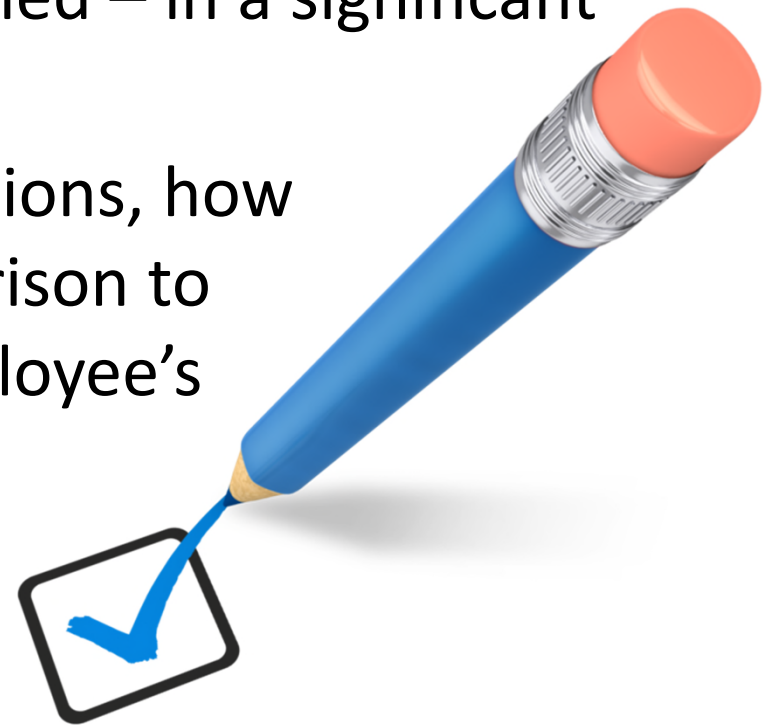
# Considerations for Enforcement / Defense

- Do the terms of the agreement prohibit the specific acts in question?
- Is the former employee truly competing – same type of business, same customers?
- Does the agreement prevent general competition or is it centered on protectable interests such as customer contacts, confidential information or trade secrets?



# Considerations for Enforcement / Defense

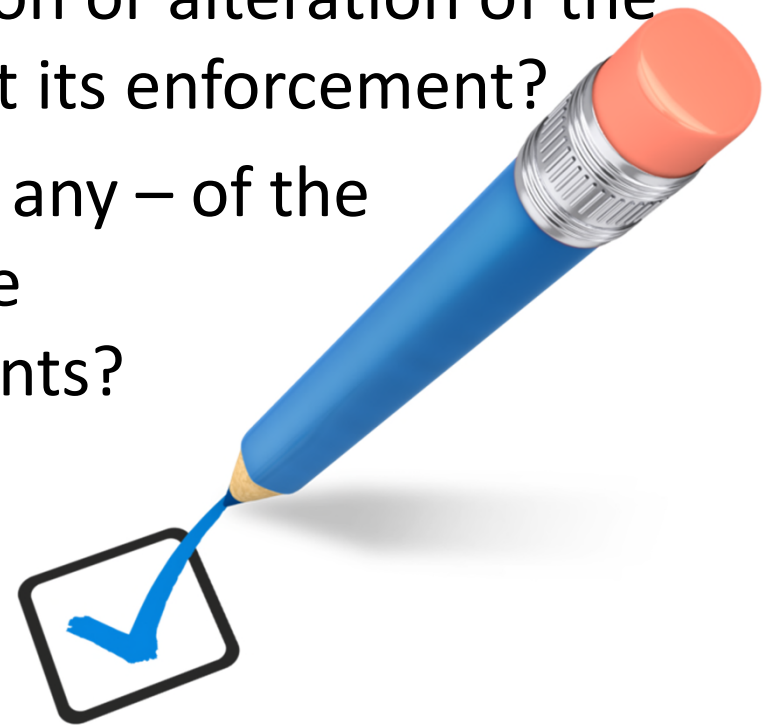
- Is the information which is at issue truly confidential and if so, what can be said about efforts to safeguard it?
- Has the enforcing party breached – in a significant way – the agreement?
- If there are geographic restrictions, how reasonable are they in comparison to the area of service or the employee's area of service?





# Considerations for Enforcement Defense

- If there are time limitations, how reasonable are they given the type of relationship the employer has with its customers?
- Has there been any modification or alteration of the agreement which could impact its enforcement?
- What has been the history – if any – of the employer's enforcement of the agreement or similar agreements?



# Considerations for Enforcement / Defense

- Does the agreement have a choice of law provision? If so, would the law of another state be more favorable?
- Will the state in which the suit is brought (or the state upon which the contract is governed) “blue pencil” or cut out portions of the agreement if the agreement is deemed overly broad?
- In what context did the agreement arise: sale of business, employer-employee, independent contractor, etc?



# Extras to Consider

- Liquidated Damages (Reasonable)
- Attorney's Fees for Prevailing
- Waiver of Bond for Injunction\*\*\*
- Severability Clause
- Extension of covenant during breach
- Extension of covenant during litigation
- Assignment clause for successors
- At will employment reaffirmation



# Choice of Law

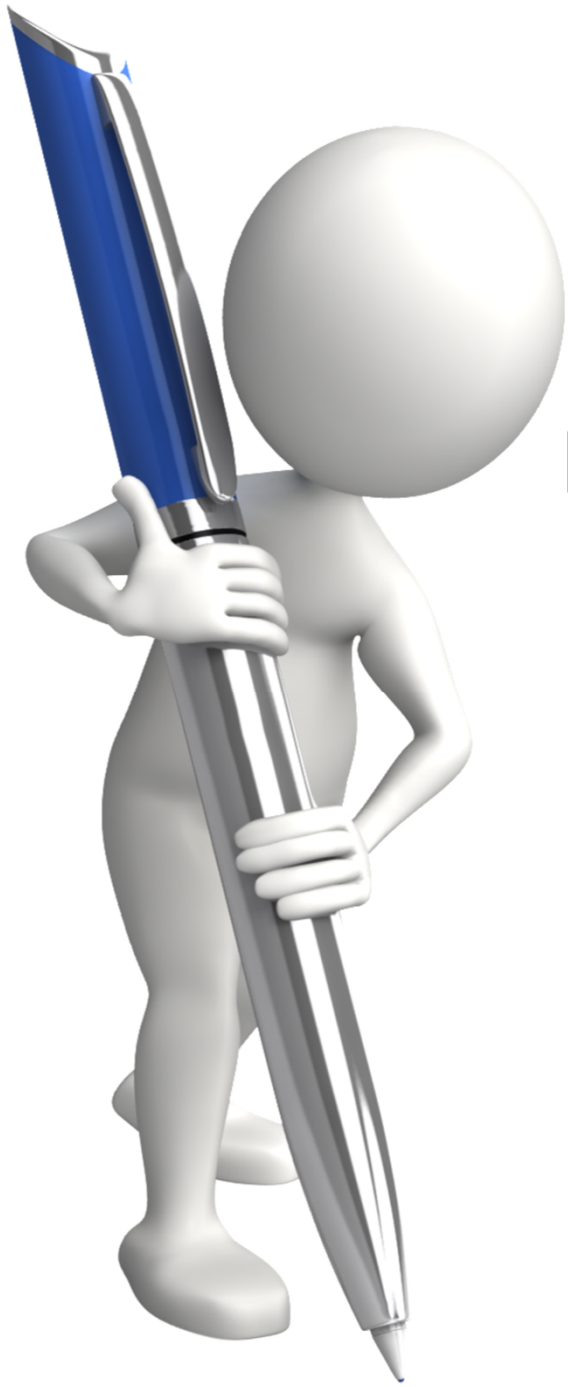
- Does your Non-Compete have a Choice of Law Claim?
  - If not, doctrine may not apply
  - If yes, may still have to fight battle to apply



## So, in conclusion...

- The agreements can be enforceable if they are reasonable.
- The agreement should be tailored to the client and the position if possible.
- The agreement should be part of an overall plan of protection.

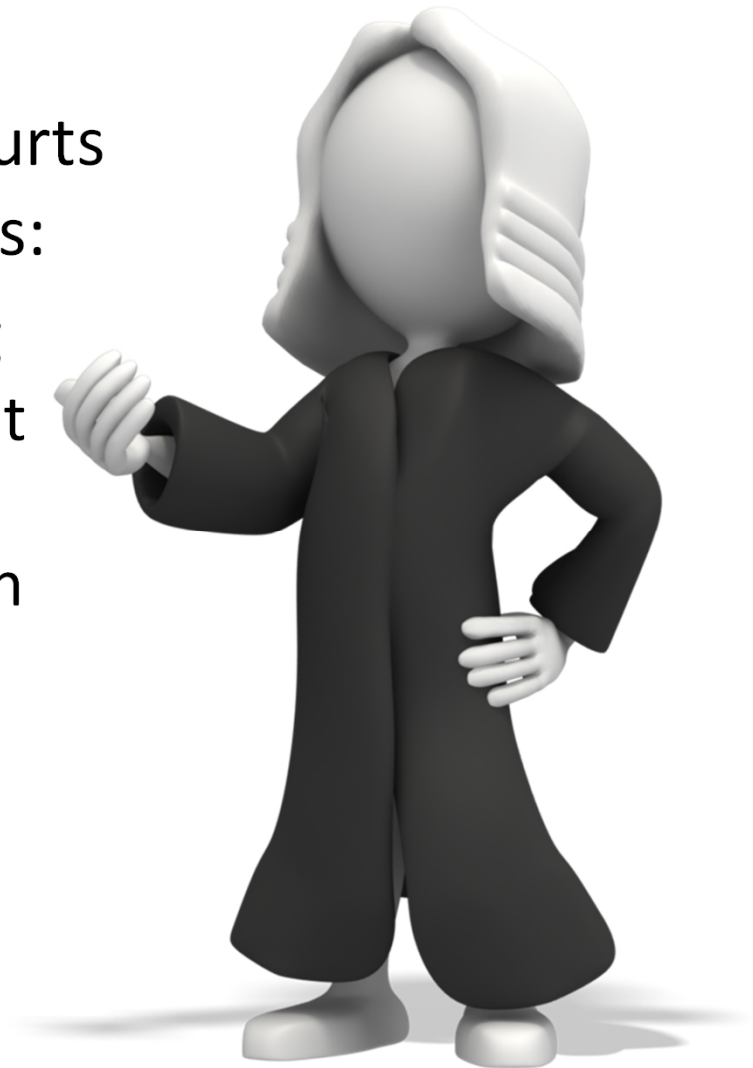




# **Enforcing Your Non-Compete Agreement**

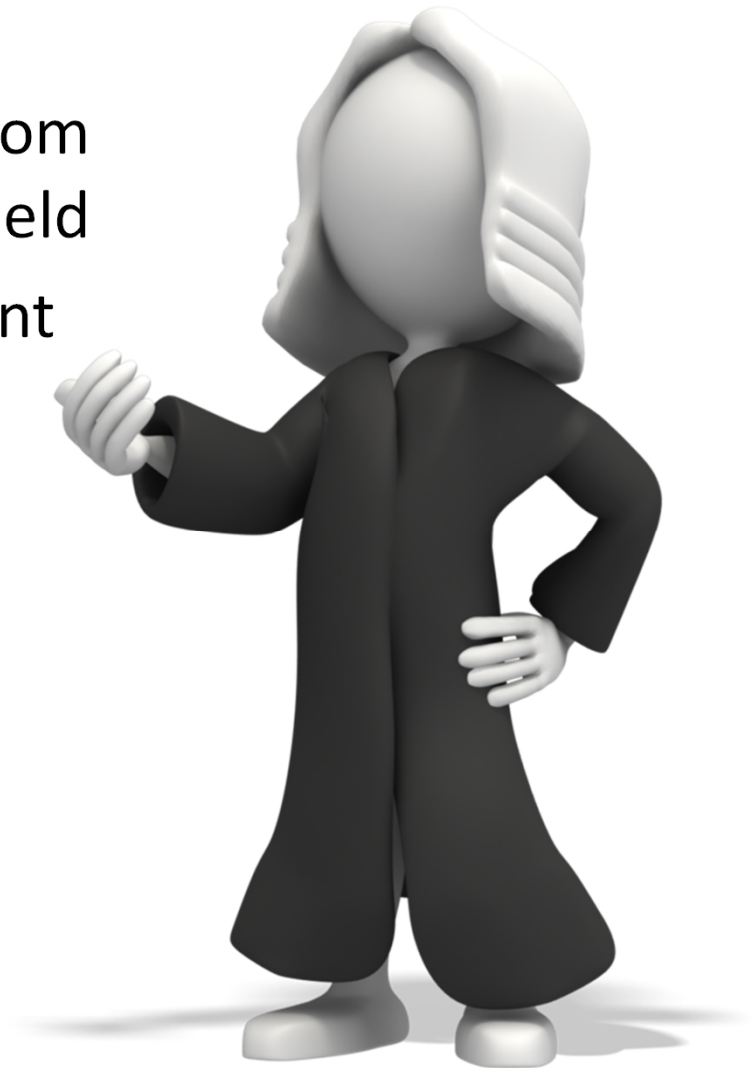
# What are Courts Looking at?

- In addition to abiding by the guidelines already outlined, courts will look at several other factors:
  - Whether the business seeking enforcement of the agreement is still in the same line of business or whether it is still in business in the area



# What are Courts Looking at?

- Whether the agreement only restricts a former employee from working in his or her chosen field
- Will consider all other pertinent legal and equitable defenses
- Whether the employer has enforced non-compete agreements against other employees





# Enforceability of a Non-Compete Agreement



- Economic or other hardship to employee
  - While may be considered in other states, Florida law states that a court should not consider this
- A court shall consider the effect upon the public health, safety, and welfare

# Enforceability of a Non-Compete Agreement

## “Blue Penciling”

- Allows a court to modify an unreasonable and unenforceable provision of a non-compete agreement
- Court will then enforce the agreement based on terms that are deemed reasonable
- “Blue penciling” may be permitted by statute
  - Some states do not permit courts to engage in such contract modifications



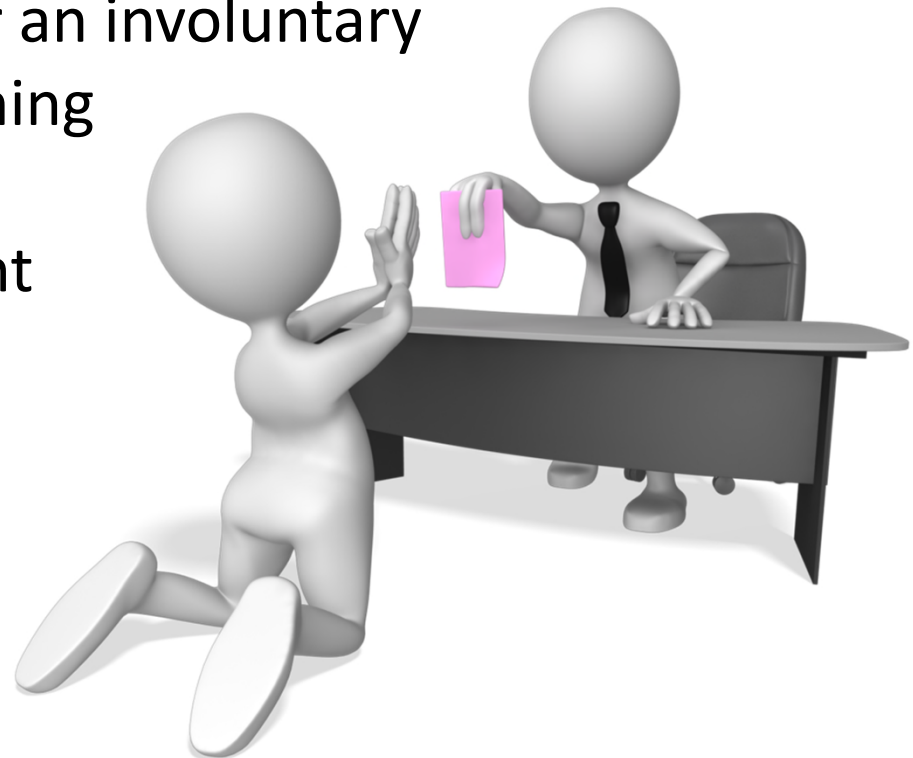
# Is the Covenant Enforceable if Employer Terminates Employee?

- An employer who has breached his agreement may not enforce a non-compete agreement
- Potential approaches in other situations:
  - Non-compete agreements are invalid when the employer discharges the employee without cause



# Is the Covenant Enforceable if Employer Terminates Employee?

- Potential approaches in other situations:
  - The court examines the nature of the employer's conduct in effectuating the termination
  - A court cannot consider an involuntary termination in determining the enforceability of a non-compete agreement



# Enforceability of a Non-Compete Agreement

## Advice on Termination

- Make sure to strictly follow the employment agreement and the company's established practices and policies regarding employee terminations, particularly those concerning notice and severance benefits



# Enforceability of a Non-Compete Agreement

## Advice on Termination

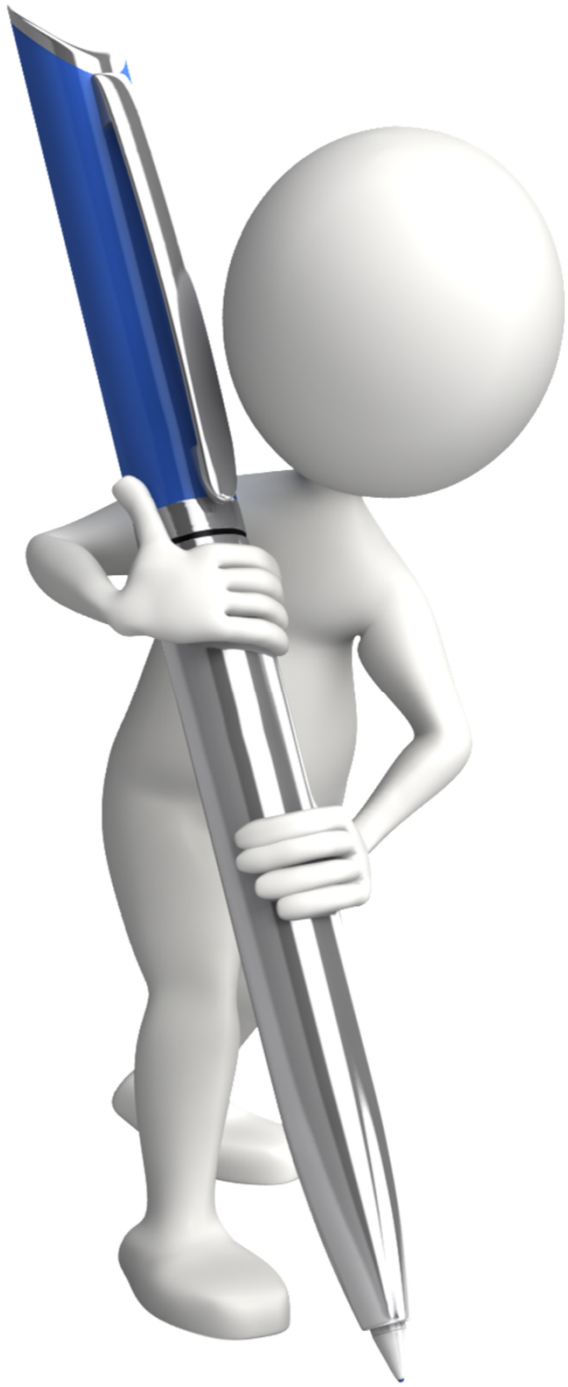
- Failure to do so will give the former employee a potent argument during any subsequent litigation to enforce the non-compete agreement
- Remind employee of his or her obligations under the non-compete agreement



# Possible Employee Counterclaims

- Before bringing an action to enforce a non-compete agreement, consider potential employee counterclaims:
  - Antitrust violations
  - Unfair business practices
  - Tortious interference
  - Breach of contract by the former employer
  - Wage and hour, or other employment claims
  - Defamation





# **Hiring Someone who has Signed a Non-Compete Agreement**



# Keys to Hiring Someone who has Signed a Non-Compete Agreement

- Argue that the non-compete agreement is too broad and that there was no “legitimate business interest”
- Consider whether you want to enter into a non-compete agreement with new employee, for that will be used as evidence by the former employer



# Keys to Hiring Someone who has Signed a Non-Compete Agreement

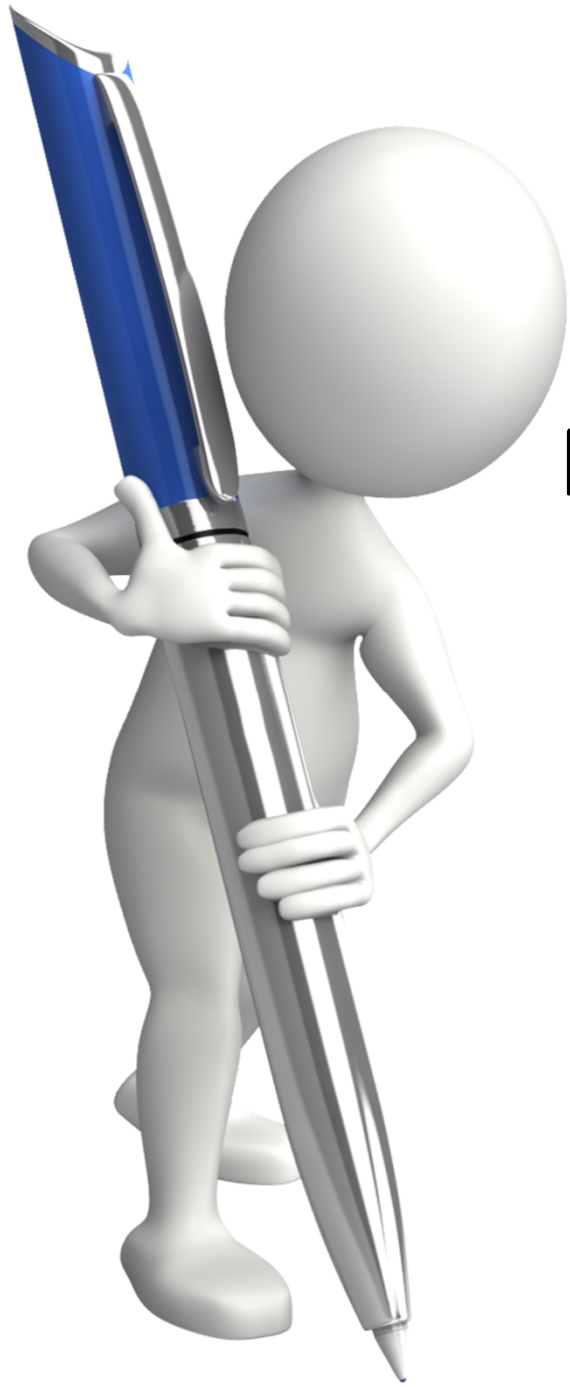
- Consider contacting previous employer prior to hiring employee – you might be able to avoid any problems or conflicts before they have time to arise



# Reaching Your Goals

- Employers should seek the advice of experienced counsel in drafting and revising loss-prevention documents, such as non-compete agreements and other restrictive covenants
- An employer may need an attorney's help in “selling” a non-compete agreement to employees





**Resigning Employee Going to  
a Competitor...Now What?**

# Investigate/Protect/Preserve

- Act quickly
- Consider legal action
  - Assess enforceability of non-compete
  - In general, courts will enforce a non-compete that is no more restrictive than reasonably necessary to protect the employer's legitimate business interests



# Factors Reviewed

- Courts generally consider the following factors in determining whether a non-compete is reasonable:
  - Length of the non-compete period
  - Scope of activity prohibited
  - Geographic scope



# Strategic Considerations Before Legal Action

- Sending a cease and desist letter to the soon to be former employee
- Sending letter to the new employer
- Bringing a declaratory judgment action



# Strategic Considerations Before Legal Action

- Litigation considerations
  - Whether or not to include the new employer
  - Where to file
  - Causes of action
  - Injunctive relief





# Strategic Decisions in Non-Compete Litigation

- Choice of forum
  - Often dictated by terms of the agreement
  - Benefits and drawbacks of the state vs. federal court forum
  - Possibility of removal by employee if filed in state court
  - Location of the employer vs. residence of the employee



# Strategic Decisions in Non-Compete Litigation

- Advance notice
  - Contact with violator or counsel beyond cease and desist letter
  - Advance copies of TRO pleadings to a party or counsel
  - Required certifications to the court regarding notice



# Strategic Decisions in Non-Compete Litigation

- Evidence submitted with initial TRO pleadings
  - Affidavit evidence
  - Documentary evidence of breach(es)
  - Live witness testimony at the time of TRO filing



# Strategic Decisions in Non-Compete Litigation

- Addressing potentially overbroad restrictions
  - Judicial unwillingness to fix temporal or geographic overbreadth
  - Addressing the issue while on offense, rather than defense



# Fact Intensive Review of Factors

- Length of service at former company
- Level of Experience/Responsibility (the “Playbook” factor)
- Type of information – technical v. marketing
- Ancillary v. Primary exposure to confidential information
- Comparison of New and Old job duties



# Fact Intensive Review of Factors

- Nature of Competition between New and Old employers
- Maturity of New employer's products/services
- Actions taken by New employer to prevent use/disclosure
- Timing of seeking to invoke doctrine





# Wrestling with Non-Compete Agreements: Your Strategic Plan



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