Noncompete Agreements for Multinational Employers
Crafting Enforceable Noncompetes for Employees in Europe and Asia

WEDNESDAY, MARCH 16, 2011
1pm Eastern  |  12pm Central  |  11am Mountain  |  10am Pacific

Today’s faculty features:

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The audio portion of the conference may be accessed via the telephone or by using your computer's speakers. Please refer to the instructions emailed to registrants for additional information. If you have any questions, please contact Customer Service at 1-800-926-7926 ext. 10.
Throughout 2010, Seyfarth Shaw LLP’s dedicated Trade Secrets, Computer Fraud & Non-Competes practice group hosted a series of webinars that addressed key issues facing clients today in this important and ever changing area of law. The series consisted of five webinars: *The Computer Fraud and Abuse Act: What You Need to Know*, *Protecting the Secrets in Your Employees’ Heads*, *Trade Secret Litigation and Protection in California*, *Franchise and Dealer Relations: Protecting Your Trade Secrets and Brand*, and *Protecting Your Trade Secrets in the Global Economy: Non-Compete and Trade Secret Considerations In Europe and Asia*. As a conclusion to this well-received 2010 webinar series, we have compiled a list of key takeaway points for each of the webinars. If you were not able to attend the webinars, we invite you to request the archived recordings of the webinars by contacting your Seyfarth Shaw LLP attorney. We are also pleased to announce that Seyfarth Shaw LLP will continue its webinar programming in 2011 and has several exciting topics lined up.

**The Computer Fraud and Abuse Act**

Our first webinar this year, led by Seyfarth attorneys James Yu, Michael Elkon, and Carolyn Sieve, was entitled *The Computer Fraud and Abuse Act: What You Need to Know*. The Computer Fraud and Abuse Act (CFAA) is a federal statute that has been used for almost a decade to obtain injunctive relief against, and impose liability on, employees and hackers who steal or interfere with a company’s electronic information. This webinar covered the essential points that employers need to know about the CFAA and its potential uses in protecting electronic assets.

- CFAA claims often turn on what an employee was authorized to do on an employer’s computer system. Therefore, handbooks, IT policies, sign-in screens, and other materials that cover IT authorization should address what an employee is (and is not) allowed to do on the system.

- The CFAA is not limited to employees. An employer should consider what authorization instructions it provides to clients, vendors, potential business partners, and contractors. It should also carefully monitor the security protections for its website and internal servers as hackers remain a continuous threat.

- There is a split among federal courts regarding whether the CFAA applies to employees who are initially provided access to company data but then either exceed that authorization or otherwise act in a manner that revokes the initial authorization. Some courts have limited the use of the CFAA to unauthorized users such as hackers. Therefore, the location of a possible violation of the CFAA is important.

**Inevitable Disclosure**

The second webinar of the 2010 series, led by Erik von Zeipel, Jason Stiehl, and David Countiss, focused on Inevitable Disclosure, an evolving doctrine recognized in a large number of jurisdictions that may prevent an employee from accepting employment when the employee’s duties cannot be performed without the disclosure of a former employer’s trade secrets. This discussion covered what employers need to know about the Inevitable Disclosure Doctrine, including jurisdictions which...
have adopted the doctrine and its application to both exiting and incoming employees. The panel also discussed best practices for handling the hiring and termination of employees in such jurisdictions.

- Understand the state of the law regarding inevitable disclosure in your jurisdiction. Injunctive relief may be easier to obtain if your jurisdiction has adopted the doctrine.

- Require new employees to sign agreements acknowledging their obligation to protect company’s trade secrets, as well as acknowledging that they understand that they need to respect their prior employer’s trade secrets and any related agreements. Be prepared to marshall any breaches of these agreements if litigation ensues.

- When an employee departs, sequester technology assets, conduct exit interviews and have the employee acknowledge agreements and covenants protecting trade secrets.

**California Trade Secrets Law**

This third webinar, conducted by Robert Milligan, Robert Niemann, and Jim McNairy, focused on how California trade secret law is similar and diverse from other jurisdictions, including a discussion of the California Uniform Trade Secrets Act, trade secret identification requirements, remedies, and the interplay between trade secret law and Business and Professions Code Section 16600, which codifies California’s general prohibition of employee non-compete agreements. The webinar also covered effective California trade secret protection policies and practices.

- Aside from a few narrow exceptions, non-competition agreements are presumed void under California law in the typical employment context and recent cases hold that most non-solicitation of customer clauses are synonymous with non-compete agreements and are therefore also unlawful. It remains to be seen whether the so-called “trade secret exception” will be a viable exception to California’s general prohibition against non-competition agreements. Employers should keep these developments in mind when assessing such agreements and make sure that their agreements comport with the recent developments in the law. Failure to do so places employers at risk for unlawful business practice suits.

- Because non-compete agreements are typically unenforceable in California, employers typically pursue trade secret misappropriation claims against former employees who steal proprietary company information. In such suits, the employer has the burden of showing that the information is a trade secret, including showing that reasonable secrecy measures were in place to protect the information. Accordingly, prudent companies should consider investing the time and money to conduct a trade secret audit. A trade secret audit generally assesses what company information may be protectable as a trade secret and the security measures the company has in place to protect such information. The results of a successful audit are clearly identified trade secrets with adequate protection measures (including updated trade secret protection agreements) in place: the existence of which are essential to success in trade secret litigation, as well as to ensure that key company assets are adequately protected.

- Conduct a thorough investigation prior to filing a trade secret misappropriation suit to ensure that the claim can be supported from all lines of attack to enable the court to issue appropriate injunctive relief and award damages. This includes obtaining evidence of the trade secret’s existence and the efforts used to protect it. Employers will need to dedicate the time and resources to arm their counsel with this essential information before and during the litigation. Trade secret plaintiffs are also required to identify their trade secrets with particularity before discovery commences in the case, so be prepared to have a trade secret identification statement prepared in advance of serving your discovery.
Trade Secrets and Franchise Law

The fourth webinar of the 2010 series, led by Andrea Okun, Jim McNairy, and Marcus Mintz, discussed how to protect trade secrets, trademarks, trade dress, and goodwill while maintaining and enhancing successful franchises and dealerships. These are often the core assets of a franchise or dealership, and this webinar presented an overview of what assets are protectable, how those assets can be protected, what state and federal laws can be used to protect these assets, and what can be done if these assets are threatened.

- One of the best ways to protect trade secrets, trademarks, trade dress and goodwill is by entering into clear, enforceable agreements at the outset of the business relationship. These agreements should clearly identify the assets (such as confidential information and intellectual property) that are being shared/licensed and expressly state the receiving party’s agreement to (a) not make unauthorized use or disclosure of those assets, (b) return all assets at the termination of the relationship, and (c) the need for injunctive relief should the receiving party breach the agreement.

- In addition to the federal Lanham Act, know the law of your jurisdiction(s). 46 out of 50 states plus the District of Columbia have adopted some variation of the Uniform Trade Secrets Act protecting highly confidential information. Of the remaining 4 states, Massachusetts, New Jersey, and New York have introduced their own versions of the Uniform Trade Secrets Act (only Texas has no trade secret act in place or pending). The franchise acts in Illinois, Indiana, Iowa, Louisiana, Michigan and Minnesota make mention of the enforceability of non-competes. Further, Alabama, California, Colorado, Florida, Georgia, Hawaii, Michigan, Montana, New York, South Dakota, and Texas all have statutes specifically dealing with non-competes.

- When drafting restrictive covenants and seeking injunctive relief, do not overreach. Drafting overly broad agreements or seeking injunctive relief beyond the scope of legitimate business needs may result in invalidation of the agreements at issue and denial of any form of injunctive relief. Be careful not to assume that every jurisdiction will blue pencil or re-write your restrictive covenants to make them enforceable. Many will not.

International Trade Secrets and Non-Compete Law

The final webinar of the 2010 series, led by Marjorie Culver, Dominic Hodson, and Robert Milligan, focused on non-compete and trade secret considerations from an international perspective. The webinar involved a discussion of non-compete and trade secret issues in Europe and Asia, including the threats to trade secrets and confidential information in these regions. The similarities and differences in approach among the various jurisdictions were discussed and compared to the United States. The panel discussed drafting considerations for confidential/trade secret protection and non-compete agreements as well as appropriate policies in these regions, along with a discussion of sources of protection other than written agreements and policies. This webinar provided valuable insight for companies who compete in the global economy and must navigate the legal landscape in these regions and ensure protection of their trade secrets.

- One size does not fit all when it comes to drafting employment restrictive covenants for employers operating in international countries. Local jurisdictions take an active interest in agreements that restrict employees from competition as a matter of public policy. Companies must be mindful of the legal requirements for valid non-competes and non-solicits where the employees predominantly provide services or where the employees are likely to later compete. Even where the parties agree on a governing law or forum, the courts in the local jurisdiction often apply local law requirements and void restrictive covenants that do not comply.
• Trade secrets: default statutory protections only go so far. Though many countries make trade secret misappropriation unlawful (similar in some respects to the U.S.), this protection may not be helpful unless a company takes active measures to define and protect its proprietary information. Companies should execute confidentiality agreements adequately defining what a company considers confidential and proprietary and also put in place technological and security protocols to restrict access to the company’s most valuable proprietary information. Failure to take such measures can undermine a company’s claim that the information constitutes a trade secret. Companies must also be mindful that their security precautions do not interfere with employees’ privacy rights, particularly in Europe.

• Non-competes: are they worth the effort in every instance? In some jurisdictions, non-competition restrictions require payment to the former employee during the restrictive period. And, in some cases, even an employer who no longer wishes to oblige the employee cannot waive the non-compete and the obligation to pay. Additionally, injunctive relief may not be available in some countries, making a non-compete the least expedient means for protecting the company from unfair competition. Across the board use of non-competes may not be the most cost-effective or efficient way to protect a company’s competitive position or trade secrets. Rather, companies should formulate a thoughtful strategy that only utilizes non-competes with employees for which there is a legitimate business and legal justification.

2011 Trade Secrets Webinar Series

Beginning in January 2011, we will begin another series of Trade Secret webinars. Planned topics for the 2011 series include Trade Secrets in the Financial Services Industry, Georgia’s New Non-Compete Statute, Choosing the Right IP Protection: Patent or Trade Secret, The Anatomy of a Trade Secret Audit, and Maintaining Trade Secrets in the New World of Cloud Computing. For notifications concerning our upcoming webinars, please sign up for our Trade Secrets, Computer Fraud & Non-Competes mailing list by clicking here.

If you have any questions, please contact the Seyfarth Shaw attorney with whom you work or any Trade Secrets, Computer Fraud & Non-Compete attorney on our website (www.seyfarth.com/tradesecrets). You may also access our blog, Trading Secrets, at www.tradesecretslaw.com.
Noncompete Strategies — A New Year's Resolution

Law360, New York (January 6, 2011) – As a new year begins and the global economy continues to recover, multinational companies are once again focusing on how to engage and retain the best talent around the world. With the usual “carrots” that are considered as part of a strategy to incentivize key talent come the inevitable “sticks” intended to restrain employees from joining competitors (and competitors from poaching employees).

Developing strategies for binding employees to post-termination noncompete and/or nonsolicitation provisions, however, can be a tricky resolution for the multinational employer. This is primarily because there is no global one-size-fits-all approach to restrictive covenants. The enforceability of post-termination noncompete and employee or customer nonsolicitation restrictions varies widely from country to country, and in some jurisdictions like the U.S., from state to state. With that said, there are region-specific commonalities that, when combined with a few key considerations, can be utilized to develop an effective strategy for post-employment restrictive covenants.

Europe — You Get What You Pay For

While in Europe, everything from anti-discrimination rules to working time (and even requirements for “curvature of bananas”) is regulated by EU directives that are then implemented by the EU member states into their local laws, post-termination restrictions are somewhat surprisingly not subject to any common EU-wide minimum requirements. Nonetheless, there are some commonalities.

For example, most EU jurisdictions apply a four factor test to determine enforceability of post-termination restrictive covenant: 1) limited in geographic scope; 2) limited in duration (typically no longer than two years); 3) required by the legitimate business interests of the employer; and 4) supported by ongoing compensation during the noncompete period. The last factor and its various implications are often the most surprising to employers.
For instance, in Germany, a post-termination noncompete requires payment of at least 50 percent of the employee's last contractual remuneration (including base salary, variable compensation and benefits) during the entire noncompete period, which cannot exceed two years.

In France, a post-termination noncompete requires compensation of at least 30 percent of the employee's last remuneration during the entire noncompete period, or such higher noncompete payment as provided by an applicable collective bargaining agreement (virtually every company doing business in France is subject to “national” collective bargaining agreements based on its business scope).

In Spain, a post-termination noncompete requires “appropriate” compensation, which may be anything from one to two years' full salary for a two-year post-termination noncompete.

Finally, most EU jurisdictions do not permit for the compensation to be paid upon hire or during employment, e.g., as a sign-on bonus, a portion of the salary reserved for the noncompete, etc., but instead require such payment to be made during the restricted period.

Importantly, once an employer has entered into a noncompete, it may be bound by it, even if there is no actual desire by the employer to enforce the noncompete against the (former) employee. Many countries have specific rules on whether or not the employer has the ability to waive a noncompete once included in an employment agreement.

For instance, once included in an employment agreement in Spain, a noncompete cannot be waived, and in Germany, a waiver will only be valid one year thereafter. In France, subject to specific provisions in applicable collective bargaining agreements, a waiver is permissible if and for the period of time agreed upon in the noncompete (typically eight to 15 days after notice of termination has been given).

Despite these commonalities among European members states, the rules still vary significantly from EU member state to EU member state. For instance, the U.K. enforces noncompetes if they are reasonable in scope and duration and required by the employer's legitimate business interests, without need for additional consideration to be paid. Russia, not an EU member state, typically does not permit post-termination restrictions at all.

Finally, Switzerland, which is member of the European Economic Area, but not an EU member state, does not require consideration for enforcement of a noncompete, although payment of consideration may increase enforceability. As such, there is still enough deviation in enforcing noncompetes that country-by-country analyses are important.

**Asia Pacific — The Rule of Reason (Usually)**

In Asia, post-termination noncompete and customer nonsolicitation provisions are typically enforceable, subject to reasonableness restrictions. Post-termination employee nonsolicits are generally enforceable as well, and subject to somewhat fewer restrictions.
As with Europe, post-termination noncompete and customer nonsolicitation restrictions in APAC are typically enforceable if three factors are met: they are 1) limited in geographic scope; 2) limited in duration (typically no more than one year); and 3) supported by the employer’s legitimate business interests.

Notably, separate consideration is typically not required by statute if the non-compete is agreed to upon commencement of employment. With that said, payment of compensation during the noncompete period can improve the chances of the post-termination restrictions being enforceable.

For instance, in Australia and Singapore, post-termination nonsolicitation and noncompetition restraints must be reasonable in scope and duration (typically no more than one year) and necessary to protect the legitimate business interests of the employer. Hong Kong has similar requirements, but typically does not enforce a post-termination noncompete exceeding three months.

Again, like in Europe, there are various exceptions to the commonalities outlined above. For instance, in India, post-termination restrictions are invalid as a matter of law, except in limited situations (e.g., where the noncompete is linked to the possession of confidential information). In some provinces in China, consideration is required to enforce a post-termination noncompete (e.g., at least 20 percent salary in Shanghai and Beijing, at least 50 percent salary in Shenzhen, etc.).

Also similar to Europe are the restrictions in China on an employer’s ability to unilaterally waive application of the post-employment noncompete.

For example, in recent court case in Beijing, a company was ordered to pay compensation for a noncompete it had included in an employment agreement, since it did not include language in the mutual termination agreement properly waiving the noncompete requirement. On the other hand, the Suzhou Municipal Intermediate Court recently upheld an employer’s right to waive the post-termination noncompete obligation by giving notice during the noncompetition period.

**Americas — The Melting Pot**

In the Americas, post-termination noncompete and customer nonsolicitation provisions are rather uncommon, and typically not enforceable. Post-termination employee nonsolicits may be enforceable, but are not common.

In the U.S., the question on the enforceability of such post-termination restrictions is driven by state law and thus varies significantly from state to state. California, for instance, typically does not permit post-termination noncompete or customer nonsolicitation provisions, subject to very limited exceptions. States such as Florida, Illinois and Massachusetts, however, enforce such post-termination restrictions, subject to varying legal requirements.
Canada does enforce noncompetes, if they protect the legitimate business interests of the employer and restrict the employee’s activities as minimally as possible.

Like the U.S., Latin American jurisdictions have diverse application of post-employment noncompetes. For instance, in Brazil the courts are split on enforcing of post-termination noncompete provisions; some courts have held such provisions to be unenforceable as violating the Federal Constitution, pursuant to which a person cannot be prevented from performing his or her profession while others have enforced post-termination noncompetes, but only if supported by consideration (often 50 to 100 percent of the employee’s wages).

In Mexico, post-termination noncompetes and nonsolicitation provisions are invalid as a matter of law as they are deemed to violate the "freedom of work" principle. In Venezuela, post-termination noncompetes are permissible, but only up to six months, if supported by justifiable reasons, agreed to upon commencement of employment, and subject to a monetary payment (typically 60 to 80 percent of the employee’s last monthly salary).

In this way, like Europe and Asia, noncompetes are a jurisdiction-by-jurisdiction and a state-by-state analysis.

**Developing a Global Strategy on Post-Termination Restraints**

Against this background, multinational employers can adopt common guidelines specific to the needs of the organization for approaching post-termination restrictions internationally in the new year. Answering the following four initial questions will help.

1) **What is the company’s business need for post-employment restrictive covenants?** The first consideration is whether and where the company needs (or would like to have) enforceable post-termination restrictions. Are these restrictions crucial to the business of the company? Are they necessary in every location where the company does business? Or are they something “nice to have,” but crucial only for some limited groups of employees?

   It may be that an enforceable nonsolicitation agreement is sufficient, as opposed to the often more difficult to enforce noncompete agreements. A part of this consideration is the company’s approach to hiring individuals who may have potentially enforceable noncompetes. Specifically, what are the available options for mitigating risk? Can the employee work in another jurisdiction for a period of time?

2) **What are the local legal requirements applicable to post-employment restrictive covenants?** The second consideration is what laws apply; that is, identifying and then addressing each jurisdiction on a country-by-country basis to determine legal restrictions and best practices.

   Additionally, the company should identify the level and type of employee it would like to bind with a noncompete or nonsolicit, and then properly tailor the post-termination restriction. What might be
appropriate for a high-level sales person with access to confidential customer lists is unlikely to be appropriate for the janitor. (Note that most jurisdictions do recognize a former employer’s interest in protecting its trade secrets and hold employees to post-termination obligations of loyalty. As such, properly drafted confidentiality language in employment agreements or in a standalone proprietary information and inventions assignment agreement can be helpful in that regard.)

3) What is the context and timing for seeking a post-employment restrictive covenant? The third consideration is the impact of when to seek a noncompete as there may be specific rules for when a noncompete or nonsolicit can be enforceable.

For example, in California, post-termination noncompetes are generally deemed a restraint of trade, under Section 16600 of the Business and Professions Code, except in limited circumstances such as in the context of a sale of a business. Similarly, noncompetes entered into after commencement of employment in many countries may be subject to different rules (and require more consideration) than those entered into upon commencement of employment.

4) What is the appropriate form for the post-employment restrictive covenants? The final consideration in formulating a global strategy on post-employment restrictive covenants is to determine whether to include such restrictions directly into the employment agreement, in a standalone proprietary information and inventions assignment agreement, or in a standalone agreement addressing post-termination restrictions.

Further, the implementation of the agreement — whether through wet signature or electronic signatures — should be considered at the outset. Finally, how the company will seek these agreements, particularly for current employees (e.g., in connection with a promotion or salary increase, as a condition of continued employment where possible, etc.), will be key to ensuring a consistent and effective rollout of the global strategy.

--By Susan F. Eandi and Dr. Ute Krudewagen (pictured), Baker & McKenzie LLP

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