Noncompete Agreements:
Latest Litigation Developments
Crafting Enforceable Contracts to Protect Trade Secrets
and Confidential Business Information
A Live 90-Minute Teleconference/Webinar with Interactive Q&A

Today's panel features:

Aaron Chausmer, Member, Chausmer Law, Atlanta
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Jessica Brown, Partner, Gibson Dunn & Crutcher, Denver

Thursday, July 22, 2010

The conference begins at:
1 pm Eastern
12 pm Central
11 am Mountain
10 am Pacific

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Noncompete Agreements:
Latest Litigation Developments

July 22, 2010
Elements of Acceptable Noncompete/ Restrictive Covenant Agreements
What is necessary for an acceptable noncompete agreement?
There must be **sufficient consideration** for the covenant.
There must be **sufficient consideration** for the covenant.

There must be a **written document** signed by the employee / party to be bound.
Consideration Required For an Enforceable Noncompetition Agreement
Consideration Required For an Enforceable Noncompetition Agreement

Form Over Substance
Consideration Required For an Enforceable Noncompetition Agreement

Form Over Substance

Context and Structure
Consideration Required For an Enforceable Noncompetition Agreement

New hire

Usually
Consideration Required For an Enforceable Noncompetition Agreement

- Continued employment under same terms: Sometimes, yes
- Sometimes, no
Consideration Required For an Enforceable Noncompetition Agreement

Access to confidential information or trade secrets
Consideration Required For an Enforceable Noncompetition Agreement

Other

Access to confidential information or trade secrets

Cash bonus or altered compensation/ terms of employment
Consideration Required For an Enforceable Noncompetition Agreement

Access to confidential information or trade secrets

Cash bonus or altered compensation/terms of employment

Stock options
Form Over Substance

Written or oral

Unsigned offer letter?
What if noncompetition agreement is part of another transaction?

Ancillary to employment
What if noncompetition agreement is part of another transaction?

Ancillary to employment

Partnership agreements
What if noncompetition agreement is part of another transaction?

- Ancillary to employment
- Partnership agreements
- Sale of business
What are some recommendations for an acceptable noncompete agreement?
A.

Be clear about the **context** and draft accordingly.
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Use covenants **appropriate** to interests to be protected.
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Be clear about the **context** and draft accordingly.

Use covenants **appropriate** to interests to be protected.

Use a **flexible** document structure.
Context and Structure

Noncompetition

Types
Context and Structure

Types

Noncompetition

Nonsolicitation

Nonrecruitment
Context and Structure

Types

Noncompetition
Nonsolicitation
Nonrecruitment
Nondisclosure
Use of attachments or exhibits
Context and Structure

1. Employment

The Employer shall supply the Employee as Engineer or in any other capacity and responsibilities and select him by the Employer elsewhere. The Contractor shall supply the Employee by the Employer elsewhere.

Other provisions

Tolling

Severability
Context and Structure

Other provisions

- Tolling
- Severability
- Blue pencil
- Choice of law
Context and Structure

Venue

Arbitration

Other provisions
Context and Structure

Other provisions

Venue

Arbitration

Bond requirements
Noncompete Agreements: Latest Litigation Developments

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Noncompete Agreements: Latest Litigation Developments – How Can Employers Protect Themselves?

July 22, 2010

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When To Talk To Your Employees

When should employer secure promise not to compete?

• During pre-hire negotiations
  – Time of maximum leverage
  – Consideration not an issue

• With current employees
  – At time of any discretionary salary increase or bonus
  – At time of promotion
  – On change of needs

• Beware: mere continuation of employment is not sufficient consideration in many states
Analyze Your Needs In Advance

Be practical, not emotional, when thinking about specific restrictions

What are the core restrictions that you really need to accomplish with a non-compete?

- Non-compete (toughest to enforce)
- Non-solitication of customers (less tough to enforce)
- Anti-raiding provision (easiest to enforce)
Beware of using form agreements – one size does not fit all!

- Form agreements for multi-state employers can be problematic

Law in this area is state-specific and fact-intensive.

- Agreement enforceable in New York may not be enforceable in Chicago

- Enforceable agreement restricting activities of sales person may not be enforceable against non-sales employees (e.g., secretarial staff)
• Remember: Enforcement is a matter of equity
  • What is fair and just?
  • Always keep “David vs. Goliath” perception in mind

• Venue and choice-of-law clauses
  • Choose a friendly state
  • States such as CA, OK, and ND are hostile

• Severability clause
  • Invalidity of one clause won’t affect others
• “Blue Pencil” Clause
  • Expressly authorizes court to modify restriction to make it enforceable

• Confidentiality Provision geared toward protection of trade secrets and proprietary information
  • Courts are much more willing to protect confidential information

• Tolling Clause
  • Shorter duration coupled with tolling clause is preferred structure
Choosing location of the battle – or letting your opponent do so – can be outcome determinative.

• Hence, consider getting a declarative judgment in a friendly forum.
Cross-Border Non-Compete Agreements

• Need to know law in each potential forum

• Critical issues:
  – Choice-of-law clause
  – Winning race to the courthouse
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Peter A. Steinmeyer is a member of the Chicago office of Epstein Becker & Green, P.C. He is Co-Chair of the Firm’s Non-Competes, Unfair Competition and Trade Secrets Practice Group and is co-author of the blog: www.tradesecretsnoncompetelaw.com
NONCOMPETE AGREEMENTS: BACKGROUND

Recent Trends in Noncompete Agreements:

1. Remains a hot area for employment lawyers. Why?
   a. Technology
   b. Employee mobility
   c. Bad economy

2. Midlevel employees; use outside the IT arena.
   a. Determining factor: access to confidential information, customers

3. Increase in use of noncompetes…corresponding rise in litigation
   a. More aggressive protection of valuable assets:
   b. Recent high-profile cases
   c. Employment Law 360 reports

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NONCOMPETE AGREEMENTS: BACKGROUND

Not all jurisdictions will enforce noncompete agreements, however:

1. State law; blue pencil doctrine

   a. California's Business and Professions Code § 16600
      – They can be used to prevent the seller of a business from opening up a similar business
      – They can be used to stop partners from leaving the partnership to do the same thing
   b. No “narrow restraint” exception to § 16600
   c. Unenforceable noncompetes for possible “deterrent effect” unlawful
NONCOMPETE AGREEMENTS: BACKGROUND

Why are jurisdictions so divided? Competing public policies:

1. Noncompetes encourage businesses to develop a product or service.
2. Costs associated with recruitment, training, compensation, etc.
3. Strong public interest in permitting workers to pursue their chosen livelihood.
4. Employers want to protect assets, minimize risk.
NONCOMPETE AGREEMENTS: BACKGROUND

Common elements required for enforcement at a minimum

1. Necessary to protect legitimate interest of employer
2. Reasonable in scope (geographic, duration)
3. Not adverse to public interest
4. Does not preclude employee from earning a living
LITIGATING NONCOMPETE AGREEMENTS:
ISSUES TO CONSIDER

Litigate or Settle Early
1. Is the agreement enforceable?
2. Has the agreement been breached?
3. Are two employers in fact competitors?
4. Is the cost of litigation justified?
5. Is it possible to get a better outcome through an agreement?
6. What effect will litigating have on the company’s own noncompetes?
7. What about disclosure of trade secrets?
8. Will litigation disrupt customer relationships?
LITIGATING NONCOMPETE AGREEMENTS: ISSUES TO CONSIDER

Offense or Defense?

1. Declaratory judgment option
2. Countersuit from prior employer, still possible
3. Either way, an immediate, thorough investigation should be undertaken
4. Search employee’s company computer for evidence (but keep privacy law constraints in mind)
LITIGATING NONCOMPETE AGREEMENTS: ISSUES TO CONSIDER

What Forum?

1. Jurisdiction
2. Choice of law
3. Race to the courthouse
4. Forum shopping / first-to-file rule may be disregarded
LITIGATING NONCOMPETE AGREEMENTS: ISSUES TO CONSIDER

Typical Claims

1. Breach of contract
2. Tortious interference with contract
3. Misappropriation of trade secrets
4. Breach of fiduciary duty/duty of loyalty
5. Violations of the Computer Fraud and Abuse Act, 18 U.S.C. § 1030
6. Unjust enrichment/restitution
7. Unfair competition
8. Civil conspiracy
9. Conversion / civil theft
LITIGATING NONCOMPETE AGREEMENTS:
ISSUES TO CONSIDER

Preliminary Relief

1. Temporary restraining orders
2. Preliminary injunctions
3. Equitable relief
4. Bond
LITIGATING NONCOMPETE AGREEMENTS: ISSUES TO CONSIDER

Discovery

1. Discovery and trial prep can disrupt business
2. Substantial time may be required of key executives/personnel
3. Trade secrets are often complicated
4. Discovery is generally conducted on an expedited basis
5. Result = substantial costs
LITIGATING NONCOMPETE AGREEMENTS:
ISSUES TO CONSIDER

Trial
  1. Business considerations
  2. Trade secret protection
  3. Closing arguments
  4. Jury instructions
LITIGATING NONCOMPETE AGREEMENTS: ISSUES TO CONSIDER

Relief

1. Damages
2. Permanent injunction
3. Attorneys fees
Jessica Brown is a partner in the Denver office of Gibson, Dunn & Crutcher. A member of the firm's Class Action, Labor and Employment, and Privacy and Data Security Practice Groups, she has been ranked by Chambers USA for several years consecutively as one of "America's Leading Lawyers for Labor & Employment." In addition, she was named one of Denver's "Forty Under 40" by the Denver Business Journal.

Ms. Brown has substantial experience defending noncompete and trade secret cases as well as nationwide and statewide class action lawsuits alleging, for example, gender discrimination under Title VII, failure to permit facility access under the Americans with Disabilities Act, and failure to pay overtime under the Fair Labor Standards Act.
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