

Today's GENERAL COUNSEL

Compliance Strategies for Non-Competes

By Dan M. Forman



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Non-compete agreements are an important tool. They protect against unfair competition from an employee who decides to take what she has learned about a company's business, its trade secrets, clients, vendors or employees, and use that information for the benefit of a competitor or to start a competing business.

Most states employ a version of the Uniform Trade Secrets Act and the U.S. Defend Trade Secrets Act to prosecute civil claims against trade secret theft by former employees. These laws provide for damages and include a powerful injunction remedy. They provide for double damages and the recovery of attorneys' fees in certain conditions. However, proving such claims — beginning with the question as to whether

the employer had a "trade secret" — can be very difficult.

Enforcement of a non-compete agreement presents a lower burden of proof than fighting over trade secret theft. The only facts that must be established are whether an enforceable non-compete exists, and whether the former employee is competing or working for a competitor.

Historically, non-competes were enforced if they complied with a test of reasonableness, namely, whether the non-compete was limited to protect a legitimate protectable interest of the employer for a reasonable duration of time and over a reasonable geographic area.

Like any good tool, such agreements must be maintained, honed and cared for to ensure that they will be enforceable. Recently, the law has changed significantly

in many states. Pay close attention to the following five compliance strategies to maintain enforceable and effective non-compete agreements.

Jurisdiction. Ensure that any non-compete will be enforced in any jurisdiction where the employee might work. Whether under common law or state statute, each jurisdiction has a different definition as to "reasonableness." Some states, such as California, will not enforce non-compete agreements. In fact, an employer who insists that California employees enter into a non-compete agreement risks exposure to a claim of breach of California's public policy. An attempt to enforce such an agreement will likely be met with an affirmative claim against the former employer by the employee.

Over the years, employers have expanded the use of non-compete agreements to many kinds of employment, including minimum wage positions. Some employers assert that a geographical limitation of "throughout the universe" is reasonable. As a policy matter, most states look at non-competes as restricting competition as well as an employee's ability to earn a living. Thus, many states have undertaken legislative efforts to limit the application and enforceability of non-competes, especially as they apply to hourly employees.

With some fanfare, those efforts have occurred in Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey and Washington. In addition, Massachusetts' 2018 legislation has other conditions that are required to create an enforceable non-compete, including requiring the forum to be that of the employee's residence, limiting the length of the non-compete and, most significantly, payment of 50 percent of the employee's highest salary within the last two years of employment throughout the non-compete period. Other states exempt certain categories of employees from non-competes or will not enforce a non-compete against an employee terminated without cause.

In the fall of 2019, the bi-partisan Workforce Mobility Act of 2019 aimed to ban non-competes in employment

across the United States, except for those in conjunction with the sale of a business to protect the business's goodwill. The proposed federal act also called for non-competes to be limited to one year and to be restricted to the same area where the business operated. Although this bill has not passed into law, the Covid-19 crisis increases pressure to pass legislation to increase mobility of employees, as businesses shutter to avoid future unemployment claims.

Reasonableness. Think about what you are trying to protect, how long is required for the protection and the critical geographic area. Reasonableness is the key to enforceable non-competes. Courts generally recognize that the

cannot be compelled to arbitrate, obtaining an award may be an empty victory. Ensure that the agreement provides for an enforceable venue provision, and the law that will apply. To have the best opportunity to obtain injunctive relief, include an agreement that any breach of the non-compete constitutes irreparable harm that is difficult to measure, and that any bond or undertaking requirement is waived by the employee in order for injunctive relief to issue.

Payment. To stay ahead of legislation against non-competes in employment, consider paying for the non-compete time. It will be easier to convince a court that non-compete restrictions are reasonable if the employer pays the employee

percentage of prior earnings in return for express agreement not to compete during a specific period of time.

Litigation. Move quickly into litigation. Many employers are reluctant to commence litigation under a covenant not to compete, and engage in a campaign of letter writing between counsel instead. Such campaigns quickly become expensive, typically with little benefit. Instead, send the employee one "reminder" letter with a copy of the non-compete, ask the employee to share it with her new employer and demand that she stop competing. Unless compliance is immediate, or there is a significant effort by the employee or her new employer to resolve the situation, move swiftly into litigation.

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types of interest legitimately protected are trade secrets, confidential information, customer relationships, goodwill, investment in training employees, personnel information, business information and processes. Consider utilizing descriptions even more narrow than a business's full range of potentially protectable information, such as "customer and prospective customer lists that employee accessed in the year prior to termination" as opposed to "all of Company's customer and prospect customer lists." Tailor any geographical limitation to the area where the employee actually conducted business.

Most states permit non-competes to be blue penciled if the agreement provides for such a revision. Thus, language that will permit enforcement of any portion of the agreement even if some provision is no longer enforceable can deter a court from voiding a contract due to one over-broad proviso. It is ideal to give the court the power to reform the agreement to make it enforceable to the extent permitted by law.

The dispute resolution provision is very important in enforcing a non-compete and obtaining an enforceable court order. Many non-competes include arbitration clauses, but if the employee

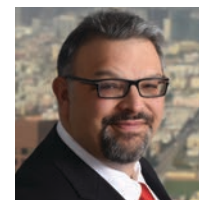
not to compete, as specified under Massachusetts law. This should include a monthly payment for the duration of the period, and a lump sum at the end payable upon verification that the non-compete wasn't breached. The lump sum will incentivize the employee. If it turns out that the employee was competing, making an express misrepresentation under oath will inure to your benefit in any litigation. A "clawback" provision will provide a remedy for the funds that were paid out when the employee was in violation.

Exit interviews. Exit interviews are important tools to help enforce non-competes. Be sure to go over an employee's non-compete, confidentiality and other continuing obligations. Encourage your former employee to share a copy of the non-compete with any subsequent employer. And, of course, document these exchanges in the employee's file. If there is litigation, these are grounds and evidence that breach of the non-compete was intentional and knowing.

Find out the employee's plans for future work. If you are concerned about enforceability, take the employee's departure as a chance to enter into a new non-compete that might be better tailored to the situation, and that pays some

Seek immediate temporary and permanent injunctive relief against all potential defendants and employers. When faced with actual litigation, not the prospect of litigation, the odds of compliance and a favorable resolution increase.

A non-compete can be a critical tool for protecting your competitive situation. Obtaining such agreements with critical employees is especially important for businesses in light of the Covid-19 crisis. Employee mobility in the remote workforce has substantially increased. Given the number of businesses downsizing and terminating employment relationships, many employees are looking for a new position. The strategies outlined above can position an employer in the event an employee changes to a competitor.



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