A Practice Note describing the steps an employer can take to minimize litigation risk when hiring from a competitor. This Note discusses potential statutory and common law claims when hiring from a competitor, the need to identify any existing contractual restrictions a potential new hire may have, how to avoid potential issues during the recruitment process, ensuring the new hire is a "good leaver" during the resignation process, responding to cease and desist letters, and potential pre-litigation settlement concepts. The Note is jurisdiction neutral. For information on state-specific hiring or non-compete issues, see State Q&As: Hiring Requirements and Non-Compete Laws.

In most industries, competition is not limited to battles over customers and clients, but also includes efforts to recruit, employ, and retain the most productive and talented workforce. In fact, most employers consider their employees to be their most valuable asset and vigorously work to prevent competitors from taking that asset. For that reason, litigation between competitors arising out of the recruitment of employees has become increasingly common. When a hiring employer becomes embroiled in such a dispute, the time and expense necessary to defend itself can easily outweigh the benefits of hiring the employee.

Fortunately, there are a number of steps a hiring employer can take to minimize the risk of litigation when recruiting employees from a competitor. This Note provides a number of practical suggestions for recruiting individuals from a competitor and significantly lowering litigation risk for various associated claims.

CONSIDER THE CLAIMS THAT CAN BE ASSERTED AGAINST A HIRING EMPLOYER WHEN HIRING FROM A COMPETITOR

The most common claims arising out of hiring from a competitor are:

TORTIOUS INTERFERENCE WITH CONTRACT

If a new employee's employment violates an enforceable agreement with his prior employer, such as a post-employment restrictive covenant (most commonly a non-compete or non-solicitation agreement) or confidentiality agreement, the prior employer will often assert a tortious interference claim against the hiring employer by alleging the hiring employer wrongly induced, encouraged, or assisted the employee's breach of the agreement. The damages for this type of claim are typically measured by the losses caused by the employee's underlying breach. Tortious interference claims are tort claims, so a plaintiff could seek punitive damages in addition to compensatory damages.

AIDING AND ABETTING BREACH OF FIDUCIARY DUTY OR DUTY OF LOYALTY

Even when a new employee is not subject to a valid post-employment contractual restriction, the hiring employer may still face a risk of litigation if the new employee engaged in misconduct rising to the level of a breach of his fiduciary duty or duty of loyalty to the former employer. For example, if an employee solicits clients or employees on behalf of a new employer while still working for the prior employer, the employee may be violating a common law duty requiring all employees to act in the best interests of their current employer. When an employee violates that duty, the employer can, and often does, accuse the new employer of encouraging that violation by "aiding and abetting" or "inducing" the new employee's breach. Even if the new employer had no idea that the new employee was violating a duty of loyalty, the new employer can easily become embroiled in a dispute involving the new employee's conduct.

MISAPPROPRIATION OF TRADE SECRETS

As with an aiding and abetting theory, if a departing employee misappropriates a former employer's trade secrets or confidential or proprietary information, the hiring employer faces a significant
risk that it will be accused of participating in that misappropriation. For that reason, when a former employer asserts a misappropriation claim, it is not uncommon for the former employer to include the new employer in that claim by alleging that the new employer acted in concert with the employee. Once again, an employer can be dragged into a dispute regarding a new employee’s misconduct, even if it played no active role in that misconduct.

Additionally, even if there is no actual misconduct, a hiring employer can be sued for misappropriation of trade secrets under a theory of inevitable disclosure, meaning that despite the hiring employer’s best efforts, the new hire will inevitably disclose trade secrets (see Practice Note, Non-Compete Agreements with Employees: Protection in the Absence of Non-Competes: Inevitable Disclosure (http://us.practicallaw.com/7-501-3409)). The inevitable disclosure of trade secrets theory is often used where an individual had access to an employer’s trade secrets, joins a competitor in a similar position to the one held with the former employer, and the circumstances suggest a lack of trustworthiness of the individual. For more information about misappropriation of trade secrets generally, see Practice Notes, Protection of Employers’ Trade Secrets and Confidential Information (http://us.practicallaw.com/5-501-1473) and Trade Secrets Litigation (http://us.practicallaw.com/5-523-8283). For information on state-specific inevitable disclosure doctrines, see Non-Compete Laws: State Q&A Tool: Question 17 (http://us.practicallaw.com/1-505-9589) and Trade Secret Laws: State Q&A Tool: Question 17 (http://us.practicallaw.com/5-505-9592).

UNFAIR COMPETITION

Unfair competition claims are often asserted as catch-all claims in an action against a hiring employer. In most cases, an unfair competition claim is derivative of other claims alleging wrongful conduct, such as tortious interference or aiding and abetting a breach of fiduciary duty.

IDENTIFY ANY EXISTING CONTRACTUAL RESTRICTIONS

One of the first things a hiring employer should determine when recruiting from or even considering an application of an employee of a competitor is whether the candidate is subject to any post-employment restrictions, such as non-competition and non-solicitation provisions. Since the existence of an enforceable restriction could impact a decision as to whether the individual is a viable candidate and whether his anticipated duties would violate a restriction, a prospective employer should:

- Ask the candidate about any restrictions as early as possible during the recruitment process.
- Examine all nooks and crannies where restrictions may be found. When discussing the restriction concerns with a candidate, make sure to specifically ask if there are any relevant agreements. Post-employment restrictions are typically found in employment agreements, but can also be found in a variety of other agreements, such as:
  - stock option agreements;
  - deferred compensation agreements;
  - bonus plans; and
  - purchase and sale agreements.

- Have any applicable post-employment restrictions reviewed by a legal expert. The scope of enforceability of restrictive covenants varies broadly, depending on the:
  - state in which the restrictions would be enforced;
  - scope of the restrictions, and;
  - nature of the employee’s responsibilities and background. An agreement that is highly likely to be enforceable in New York could be just as likely to be unenforceable in California (for more information on state-specific non-compete enforceability issues, see State Q&As, Non-Compete Laws).

- If the restriction is likely to be enforceable, consider whether the candidate would violate the restriction if he was hired for the position at issue. Potential employers should compare the contractual restriction with any written job description, and discuss the requirements of the position with the candidate’s prospective manager.

ASSESS THE LIKELIHOOD OF LITIGATION

When assessing the likelihood that a particular hiring decision will result in litigation, the hiring entity should put itself in the prior employer’s shoes and consider:

- What are the circumstances of the employee’s departure?
- What are the similarities between the new and old positions?
- How competitive are the two businesses?
- Has the hiring entity hired any other employees from the prior employer?
- What is the likelihood of customer or co-worker flight?
- What is the value of the trade secrets or proprietary information to which the employee had access?
- How sensitive is the position held by the employee?
- Do the circumstances justify the cost of litigation? For example, might there be a need for the former employer to send a message to the new employer or to other employees?

Similarly, when assessing the likelihood of litigation, it is helpful to gather intelligence about the prior employer’s history of enforcing its restrictive covenants. Some employers are quite aggressive and will file a lawsuit to enforce restrictive covenants of even relatively low level employees. Others only litigate in rare circumstances. Knowing a particular employer’s enforcement history helps employers weigh the litigation risks and can inform decisions about potential protective steps.

SEEK LEGAL ADVICE AND CONSIDER INDEMNIFYING THE CANDIDATE

Because of the potential consequences to the candidate, potential employers should encourage the candidate to seek his own legal counsel regarding the enforceability of any restrictive covenant. However, provided that the candidate and the potential new employer have a common interest and there are no non-waivable conflicts, they can jointly seek advice from an attorney regarding enforceability issues.
In appropriate circumstances, a new employer can also agree to indemnify the candidate against any potential litigation. Any such decision should involve an assessment of various factors, including:

- The likelihood of any such litigation.
- Its potential outcome (both positive and negative).
- Its likely outcome.
- Potential attorneys' fees and costs.
- Whether the candidate would be willing to accept the position without indemnification.
- Whether the fact of the indemnification agreement could be used against the hiring employer in any resulting litigation, such as to support a claim for interference with contract inducing breach of contract.
- Whether any such indemnification is consistent with other corporate policies and procedures.

Any agreement to indemnify (or not to indemnify) a candidate should be clear and should exclude indemnification for intentionally dishonest or fraudulent conduct. It should also allow the employer to modify or terminate the agreement in appropriate circumstances (for example, if the employer later learns that the candidate was not honest).

**CONSIDER POSSIBLE PROTECTIVE STEPS IF THE CANDIDATE HAS AN ENFORCEABLE RESTRICTIVE COVENANT**

If a candidate is subject to an enforceable restrictive covenant, and if the position for which the candidate is being considered would require the candidate to violate the terms of that restrictive covenant, there are steps the hiring employer can take to minimize the litigation risk associated with the hire, including:

- Restructuring the position so that its duties and responsibilities do not run afoul of any contractual restrictions (for example, walling off a salesperson or manager from certain customers for a period of time).
- Placing the candidate “on the bench” (for example, paid a salary, but not required to perform any duties) or placing them in a temporary position for the duration of any contractual restriction.
- Asking the candidate to request a waiver of any contractual restrictions from his former employer. Depending on the circumstances (for example, where the candidate was laid off or where the former employer is planning to leave the competitive line of business), the former employer might be willing to waive the contractual restriction. Given the potential consequences of such a request, however, this needs to be the candidate's decision, and the candidate should be the one to make any such request.

**MINIMIZE RISK DURING THE RECRUITMENT PROCESS**

Once a hiring employer has decided to proceed with an offer, it should make sure its recruitment of that employee does not give rise to any potential claims against itself or the incoming employee. To help minimize the risk of legal claims, the new hire should instruct the candidate to:

- **Not use current employer's facilities to communicate with the hiring employer or discuss employment opportunities at the hiring employer with anyone else at the current employer.** The use of an employer's facilities (such as email, computer system letterhead, or phone lines) to pursue competitive employment is arguably inconsistent with the employee's duty of loyalty. In addition, in the event of litigation, any evidence that the employee used the former employer's resources for any purpose other than the performance of his normal duties (particularly in connection with the pursuit of employment with a competitor) can undermine a legal defense.
- **Not disclose or volunteer competitive information.** When recruiting from a competitor, the hiring employer should not ask for or accept any information regarding the competitor's business, clients, strategies, or finances. Rather it should focus on the candidate's qualifications and suitability for the position, not the current employer's operations. If the candidate offers to share any information about the current employer, the hiring employer should politely decline and remind the candidate that he should not disclose any of the employer's confidential or proprietary business information.
- **Not disparage the current employer.** Not only are disparaging remarks unprofessional, they can lead to defamation claims. Litigation in this area is frequently driven by emotions such as anger and fear, and any conduct that might inflame such emotions should be avoided.
- **Not recruit other employees.** Prior to the effective date of resignation, the employee should not encourage any other employees to resign for any reason. This could be construed as improper solicitation and may be actionable even in the absence of any contractual restrictions against solicitation of the former employer's employees. In most jurisdictions, employees have a common law duty of loyalty (and often a fiduciary duty) to act in the best interest of their current employer, even after tendering a notice of resignation. Violation of this duty of loyalty can result in substantial damages against the employee, including, among other things, forfeiture of the wages paid to the employee during the period of disloyalty. To the extent a subsequent employer is found to have assisted the employee in breaching his duty of loyalty, there is potential exposure to the new employer for aiding and abetting the employee's breach.
- **Not discuss resignation with co-workers.** Instruct the candidate to avoid even discussing his new employment with co-workers before a formal letter of resignation has been submitted. This discretion reduces the risk of breach of duty of loyalty claims regarding the improper solicitation of employees. Once the employee has resigned, if he believes it is important to inform certain co-workers that he is leaving, the employee should limit the discussion as much as possible to the date he will be leaving, and sharing information necessary for a smooth and orderly transition of his duties and responsibilities.
- **Not solicit or appear to solicit clients.** Instruct the candidate that, prior to the effective date of resignation, he should avoid any communications with clients that could even arguably be construed as a solicitation for the new employer or any other company. If a prior employer can prove that an employee solicited a client while still employed by the prior employer, the employee (and the new employer) could be liable for substantial monetary damages for breach of the duty of loyalty in addition to any contractual restrictions against soliciting clients. As stated above, those damages can even include the return of any salary or bonuses paid to the employee during the period of alleged disloyalty.
Hiring from a Competitor: Practical Tips to Minimize Litigation Risk

- **Attest to the disclosure of all employment agreements and restrictions.** In any offer letters or employment agreements provided to the candidate, employers should include a representation to be signed by the candidate that he has disclosed to the new employer all agreements or other post-employment restrictions that may apply. The representation should also include a statement that the candidate has reviewed the duties and responsibilities of the new position and is not subject to any contractual restriction that would prevent him from performing them. The offer letter or agreement can also instruct the new hire not to bring, distribute, or use any confidential information, trade secrets, or property of a prior employer, and it should require the new hire to confirm he can perform the duties and responsibilities of the new position without using or disclosing a former employer’s confidential or proprietary material. For a sample offer letter containing this language, see Standard Document, Offer Letter/Employment Agreement for a Non-Executive (Short-Form), Continuing Obligations (http://us.practicallaw.com/0-501-1654). Offer letters frequently become litigation exhibits. Accordingly, employers should write them with a judicial audience in mind (for example, the tone should be professional and respectful of the legal rights of others).

- **Review relevant handbook policies.** Include a provision in any employee handbook which prohibits the unauthorized use or distribution of confidential information or trade secrets of a third party. Such a provision would be further evidence of the hiring employer’s good faith. See, for example, Standard Document, IT Resources and Communications Systems Policy (http://us.practicallaw.com/8-500-5003) (stating, “this policy also prohibits use of the company’s IT resources and communications systems in any manner that would infringe or violate the proprietary rights of third parties”).

**ENSURE THE EMPLOYEE IS A “GOOD LEAVER” DURING THE RESIGNATION PROCESS**

Once an employer has extended an offer to an employee working for a competitor, the hiring employer can further reduce its risk of legal exposure by doing its best to ensure the employee behaves appropriately throughout the resignation process, also known as being a “good leaver.” As a “good leaver,” the employee not only reduces his own risk of exposure, but also reduces the risk of a claim against the hiring employer.

To be a “good leaver,” the employee should:

- **Not bring any materials from the former employer to the new employer.** On departure, the employee should not take anything with him unless it is unquestionably a personal item (for example, personal photographs, artwork, or shoes). Items not to be taken include, among other things, reports and other materials prepared solely by the employee regardless of where the material is physically located. Any non-personal material should not be removed from the former employer’s premises and all copies should be returned to the former employer. Even if the material technically belongs to the client rather than the former employer, it still may represent work product of the former employer and may even be subject to copyright protection. If this material is needed for a subsequent engagement with a new employer, the client and former employer should be asked to voluntarily provide a copy. Former employers will often comply with a client’s request for relevant material to maintain goodwill with that client.

- **Find a monitor.** Ask the employer to designate someone to monitor the employee’s departure and approve the removal of any non-personal items such as rolodexes and appointment books. This can effectively limit the employer from later claiming that the employee had no right to take those items.

- **Return materials to the former employer.** All work-related material maintained by the employee both inside and outside the office (including computer files contained on a home PC, laptop, or smartphones, equipment belonging to the employer, and any hardcopy files) should be returned to the employer. An employee’s retention of any proprietary or confidential information or material following resignation is one of the single most damaging pieces of evidence in restrictive covenant and unfair competition cases. Should litigation ensue, if the former employer can articulate a legitimate basis for believing that a former employee’s personal computer contains the former employer’s proprietary and confidential information, a court may permit a forensic examination of the former employee’s personal computer to determine if proprietary and confidential information was retained by the employee after resignation.

- **Tender a written letter of resignation.** The resignation letter should not contain any disparaging or critical comments. Instead, the letter should be brief and courteous. It may also include an offer to remain with the current employer for a reasonable period of time (for example, one or two weeks) to finish pending projects or help transition his duties, but this will depend on the circumstances of the resignation, the existence of any enforceable notice provisions in the employee’s agreement, and the business needs of the current employer. In practice, employers often require resigning employees to leave the premises immediately.

**RESPOND TO ANY “CEASE AND DESIST” LETTERS**

Even when a hiring employer does everything possible to ensure its recruitment efforts are proper, it still can find itself the recipient of a letter from the competitor, or the competitor’s counsel, complaining about the circumstances of the employee’s departure or threatening legal action. In most circumstances, the hiring employer should respond to any “cease and desist” letter that it receives. There are steps a hiring employer can take to defuse a possible litigation even when it receives a particularly hostile letter. Hiring employers should:

- **Use an appropriate tone.** Using a reassuring or sympathetic tone when responding to a cease and desist letter (for example, a tone suggesting the new employer takes the concerns of the prior employer seriously, but believes there is no basis for concern). Resist the temptation to respond in an adversarial manner even where the former employer’s allegations are completely unfounded.

- **Provide assurances.** If the former employer alleges that the employee misused or misappropriated confidential information, for example, the new employer could assure the prior employer that it has no interest in this information and that it has investigated the allegation and found it meritless. However, if it turns out that the employee does possess this information, the new employer can offer to return or destroy it.
Avoid legal debates. Do not include in the letter legal debates over the enforceability of restrictive covenants. In most cases, it is useless to try and persuade an employer that its restrictive covenants are overbroad or otherwise unenforceable. If the former employer claims it has an enforceable restriction that the hiring employer believes to be unenforceable, it should focus instead on its commitment to free and fair competition.

Maintain an open dialogue. Keep the door open for further discussion. Any response letter should state that if it has not addressed all concerns of the former employer, or if the former employer has additional information that it would like to share about its concerns, the hiring employer is open to discussing the matter further.

Find a similarly situated author. To avoid escalating the dispute, if possible, the response should come from someone in a position similar to the sender of the cease and desist letter. For example, if the cease and desist letter came from the prior employer’s in-house attorney, the response should come from an in-house attorney. If the cease and desist letter came from outside counsel, the response should come from outside counsel.

Write for a judicial audience. Cease and desist letters and any responses are frequently used as exhibits in any resulting litigation. Accordingly, authors should draft these letters with a potential judicial audience in mind.

Not respond to reminder letters. Unlike true cease and desist letters, reminder letters do not allege misconduct; therefore a response is generally not required. For sample reminder letters to departing employees and hiring employers, see Standard Documents, Continuing Obligations Letter to New Employer (http://us.practicallaw.com/9-520-5638) and Continuing Obligations Letter to Departing Employee (http://us.practicallaw.com/5-520-0096).

AVOID SUBSEQUENT EVIDENCE SPOILATION CLAIMS

Cease and desist claims frequently trigger a duty to preserve pertinent evidence. Where litigation is reasonably foreseeable, the duty may be triggered even before the receipt of such a letter. For example, if an employer independently discovers that a new employee may have improperly taken a prior employer’s proprietary information and concludes that there is a reasonable likelihood of litigation over that conduct, the new employer and the employee may have a duty to preserve potentially relevant information even before the prior employer sends a cease and desist letter or even becomes aware of the potential misappropriation.

After receiving a cease and desist letter, employers should issue a document preservation notice to all individuals who may have relevant documents or information, as well as to the appropriate information technology personnel so as to make certain that relevant emails and other electronic communications are preserved. For a sample letter to employees, see Standard Document, Litigation Hold Notice (http://us.practicallaw.com/0-501-1545). For a hold notice to opposing or third parties and other relevant litigation hold resources, see Litigation Hold Toolkit (http://us.practicallaw.com/0-501-1545).

Where litigation is reasonably foreseeable, and where certain employee hard drives are likely to contain evidence that would be relevant to the litigation, it may also be prudent to take a forensic image of certain employee hard drives. In such circumstances, the cost of creating such a forensic image should be weighed against the possibility of evidence spoliation in the absence of such an image.

CONSIDER PRE-LITIGATION SETTLEMENT CONCEPTS

Resolution of disputes involving the movement of employees between competitors may require more than a mere exchange of letters. Potential settlement considerations may include the following:

- The return or destruction of documents or other information improperly taken.
- Representations and warranties from the hiring employer to the prior involving topics including the:
  - employee’s duties and responsibilities;
  - hiring employer’s lack of knowledge regarding any inappropriate activity by the employee; and
  - hiring employer’s pledge to return any documents or information that it subsequently learns was inappropriately taken.
- A hiring protocol governing how the employee should respond to employment inquiries from former colleagues.
- An agreement that for a limited period of time, the employee will not solicit certain designated customers or employees. Such an agreement can be a reaffirmation of existing non-solicitation contractual obligations, or it could be a means of remedying an alleged theft of trade secrets or confidential information.
- A “no hire” agreement, under which for a limited period of time, the new employer agrees not to hire certain specific employees from the former employer.

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A Practice Note describing the steps an employer can take to prepare to successfully litigate a non-compete action, the primary options for enforcing a non-compete agreement, and the strategic decisions involved with each option. This Note discusses gathering evidence, key steps to assessing the enforceability of a non-compete, factors to consider before initiating legal action, cease and desist letters, declaratory judgments, seeking damages, and requesting injunctive relief. This Note is jurisdiction neutral. For information on state law requirements, see the State Q&A Tool under Related Content.

Non-compete litigation is typically fast-paced and expensive. An employer must act quickly when it suspects that an employee or former employee is violating a non-compete (also referred to as a non-competition agreement or non-compete agreement). It is critical to confirm that there is sufficient factual and legal support before initiating legal action. Filing a complaint for monetary damages or a request for an injunction can backfire if an employer is not prepared with sufficient evidence to support its request. This Note discusses the steps an employer can take to best position itself for successful enforcement of a non-compete and the strategic considerations involved with initiating non-compete litigation. In particular, it discusses:

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<th>BEST PRACTICES FOR GATHERING EVIDENCE</th>
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<td>Employers often learn from clients, customers, or employees that an employee or former employee is working for a competitor or preparing to do so. Rather than relying on second-hand knowledge of a suspected violation of a non-compete, employers should promptly conduct their own investigation to:</td>
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<td>■ Evaluate whether the employee's conduct violated a non-compete.</td>
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<td>■ Gather evidence to be used if the employer decides to pursue legal action to enforce the non-compete.</td>
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This section describes several best practices for investigating a potential non-compete violation. For more information about non-competes generally, see Practice Note, Non-Compete Agreements with Employees: What is a Non-Compete Agreement? (http://us.practicallaw.com/7-501-3409#a318444).

INVESTIGATING A SUSPECTED VIOLATION

Because of the nature of the conduct at issue, an employer should act quickly when it suspects an employee is violating a non-compete. There are numerous reasons for doing so. For example, quick action:

- Demonstrates the employer has a legitimate business interest and takes any suspected violation seriously.
- May minimize the damage to the employer’s business resulting from an employee’s competitive activity.
- Helps ensure that any potential evidence of the employee’s conduct will not be lost (see Preserving Electronic Evidence).

In most states, employers must demonstrate that the post-employment restrictions are necessary to protect a legitimate business interest (see, for example, Reliable Fire Equip. Co. v. Arredondo, 965 N.E.2d 393, 400 (Ill. 2011), BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 388 (1999), and Tex. Bus. & Com. Code § 15.50(a)). For more information on state requirements, see Non-Compete Laws: State Q&A Tool (http://us.practicallaw.com/1-505-9589).

To evaluate whether an employer has a legitimate business interest, courts frequently consider how quickly the employer acted to protect its interests. It can be difficult to argue that an employee’s conduct caused irreparable injury (a factor courts consider in deciding whether to issue an injunction) if the employer failed to act promptly.
after learning of a suspected violation (see Standard for Preliminary Injunctive Relief by Circuit Chart (http://us.practicallaw.com/8-524-0128)). If an employer delays too long, the departing employee also may be able to raise laches as a defense to any enforcement action. Accordingly, employers can best position themselves for successful enforcement by acting quickly.

ENSURING RELEVANT DOCUMENTS ARE GATHERED

Employees often sign numerous documents both before and during their employment such as:

- Employment applications (see Standard Document, Application for Employment (http://us.practicallaw.com/8-502-0273)).
- Offer letters (see Standard Documents, Executive Offer Letter (http://us.practicallaw.com/8-585-1425) and Offer Letter/ Short-Form Employment Agreement for a Non-Executive (http://us.practicallaw.com/0-501-1654)).
- Stock option agreements (see Standard Documents, Non-Qualified Stock Option Agreement (Employees) (http://us.practicallaw.com/7-507-5708) and Incentive Stock Option Agreement (http://us.practicallaw.com/9-508-6490)).

Some of these documents may reference, incorporate, or even supersede obligations contained in other agreements. For example, a later agreement could include a merger provision that impacts a non-compete agreement. Accordingly, when there is a suspected violation of a non-compete, employers must be sure to locate all agreements signed by an employee that contain or affect post-employment restrictions, including:

- Non-competes.
- Any non-solicitation provisions that may prohibit an employee from:
  * serving his former employer’s clients or customers; or
  * soliciting former coworkers to work for his new employer.

Many non-competes are stand-alone agreements. However, post-employment restrictions can also be found in:

- Employment contracts.
- A release of claims executed as part of a settlement of actual or anticipated litigation.
- Separation or severance agreements.

A thorough search for relevant documents should include an employee’s personnel file and the following locations, if relevant:

- Employee benefits files. Because some employers provide employees with the opportunity to participate in compensation, commission or stock option plans in exchange for their agreement to a non-compete, employee benefits files may contain copies of non-compete agreements.
- Corporate transaction files. If an employee was hired as part of a merger or acquisition, the corporate transaction paperwork may contain copies of non-competes.

Best practice is to retain all agreements with post-employment restrictions even those that are no longer in effect because they may still be useful. For example, an employer that requires employees to sign updated non-competes can use its business practice as evidence that it has a legitimate business interest in enforcing non-competes.

CONDUCTING WITNESSES INTERVIEWS

An employer’s investigation into a suspected violation of a non-compete should include interviewing witnesses. Depending on the facts of a particular situation, witnesses may include:

- Individuals who work with the employee. Coworkers may have witnessed conduct by the employee that violates the non-compete. They may also be able to provide valuable evidence of a violation of a non-solicitation provision if the employee attempted to recruit these individuals.
- Clients or customers. Clients or customers may be able to confirm a suspected violation of a non-solicitation of customers provision (see Contacting Clients or Customers).

Contacting Clients or Customers

Because contacting clients or customers about a suspected violation of a non-compete may not be appropriate in all cases, employers should:

- Consider the likelihood that the client or customer has helpful information.
- Balance the risk of upsetting their business relationship with any potential benefits to be gained.

Obtaining Affidavits

To the extent any coworkers, clients, or customers have first-hand knowledge that an employee has violated a non-compete (for example, a client received a telephone call from the employee soliciting their business), employers should consider obtaining affidavits from these witnesses. An affidavit can bolster an employer’s application for injunctive relief or a request for damages. Additionally, a witness who signs an affidavit is less likely to change his story at a future date. For a model, see Standard Document, Affidavit: General (Federal) (http://us.practicallaw.com/9-504-9780).

PRESERVING ELECTRONIC EVIDENCE

Employers suspecting that an employee violated a non-compete can often obtain valuable evidence from the employee’s computer. In particular, information about which electronic files a departing employee accessed, transferred, printed, or deleted is often incriminating evidence of impermissible competitive activity.

Before conducting workplace monitoring or surveillance of current employees, employers should confirm they have a clear electronic communications systems policy in place that notifies employees that computers are company property and reserves the employer’s right to monitor employees’ e-mail, internet, and computer usage. For a model policy, see Standard Document, IT Resources and Communications Systems Policy (http://us.practicallaw.com/8-500-5003). For more information, see Practice Note, Electronic Workplace Monitoring and Surveillance (http://us.practicallaw.com/1-506-8862).
Because confidential, proprietary, and trade secret information is often stored in electronic form, departing employees may attempt to transfer information by email to a personal email account or to a storage device such as a thumb drive. Employers that suspect a departing employee is violating a non-compete should:

- Shut off the employee's access to the employer's computer system and ensure that the employee no longer has access to the building once his employment has ended.
- Immediately preserve the employee's:
  - email;
  - computer hard drive; and
  - any additional electronic devices, for example, a Blackberry or mobile phone.
- Review security footage of the building and records of any print-outs for suspicious activity such as the employee accessing the building at late hours to remove boxes of files or printing out a large volume of material.
- Consider hiring a computer professional to make a forensic image (snapshot) of the employee's hard drive and other electronic devices. This should happen before the employer even turns on the employee's computer and opens files to retrieve them. A forensic image can help an employer defend against claims for spoliation of evidence. Although hiring a forensic expert to review the electronic evidence can be expensive, employers should consider, at a minimum, preserving the evidence by having a forensic image created.
- Send a litigation hold notice to relevant employees (see Standard Document, Litigation Hold Notice (http://us.practicallaw.com/0-501-1545) and Litigation Hold Toolkit (http://us.practicallaw.com/2-545-9105)).

**KEY STEPS TO ASSESSING THE ENFORCEABILITY OF A NON-COMPETE**

Before initiating legal action, it is crucial for an employer to determine whether a court is likely to enforce the non-compete. The enforceability of non-competes is largely governed by state common law although some states, for example, Florida and Texas, have enacted statutes governing non-competes (for more information, see Non-Compete Laws: State Q&A Tool: Question 1 (http://us.practicallaw.com/1-505-9589#W_q1)).

If the employee has misappropriated trade secrets, the employer also may be able to bring a claim in federal court under the Defend Trade Secrets Act (DTSA). Effective May 11, 2016, the DTSA amends the Economic Espionage Act and creates a private cause of action for trade secret misappropriation under federal law (see Common Causes of Action). The DTSA supplements, but does not preempt or eliminate, state trade secret or non-compete laws.

The likelihood that a court will enforce a specific non-compete against an employee depends on a variety of factors and the determination by the court is highly fact-specific. This section describes key steps an employer can take to assess the enforceability of a non-compete before initiating legal action.


**REVIEWING THE LANGUAGE OF THE NON-COMPETE**

Either before or together with a fact investigation, employers should carefully review the language of all agreements signed by the employee that contain post-employment restrictions. Key considerations in this inquiry include:

- Is the agreement still operative? Many non-competes operate for a limited period of time, for example, six months post-termination. However, some non-competes contain a tolling provision that extends the temporal restriction for any time period during which the employee is in breach of the non-compete.
- Do any agreements supersede the non-compete agreement? If an employee has signed multiple non-competes, later agreements may supersede earlier ones. Depending on the particular facts, an employer may be able to enforce multiple agreements or at least make an argument for a particular non-compete to be enforced if it contains language that is more tailored to protecting the employer's business needs.
- Is the employee's conduct prohibited under the language of the non-compete? Although an employee's conduct may be unsettling to an employer, it may not violate the language of the non-compete.
- Does the non-compete contain a severability clause or a clause requesting modification of the non-compete if a court finds a particular provision unenforceable (see Does State Law Permit Reformation of Overbroad Non-Competes?)?
- Does the non-compete include a choice of law or choice of venue provision (see Is There a Choice of Law or a Choice of Venue Provision?)?
- Is there a liquidated damages clause? In some states, the presence of a liquidated damages clause will preclude injunctive relief (see Requesting Injunctive Relief).

**DETERMINING WHICH STATE'S LAW GOVERNS ENFORCEMENT**

It is crucial at the outset for employers to determine which state's law will govern the enforceability of the non-compete and what the standard is in that state. Notably, there are jurisdictions where non-competes are entirely or largely unenforceable, regardless of the impact competition may have on an employer's business. For example, in California, post-employment non-competes in the employment context are generally void (Cal. Bus. and Prof. Code §§ 16600-16607). The only exceptions are non-competes that fall within one of the narrow exemptions authorized by statute, all of which pertain to the sale of a business (Edwards v. Arthur Andersen LLP, 44 Cal. 4th 937 (2008)). In other states, non-competes are enforceable but under widely different standards (for more information, see Non-Compete Laws: State Q&A Tool (http://us.practicallaw.com/1-505-9589)). This section describes key considerations for employers that are determining which state's law will govern enforcement of a non-compete.
Is There a Choice of Law or a Choice of Venue Provision?

Employers should be familiar with any choice of law and choice of venue provisions from their review of the language of the non-compete (Reviewing the Language of the Non-Compete). Parties to non-competes frequently include these provisions to state their expectations about which state's law will be applied to interpret the enforceability of a non-compete and where any litigation concerning the non-compete will be filed. For more information, see Practice Note, Employee Non-Compete Agreement: Drafting Note: Governing Law: Jurisdiction and Venue (http://us.practicallaw.com/7-502-1225#a865653) and Practice Note, Choice of Law and Choice of Forum: Key Issues (http://us.practicallaw.com/7-509-6876).

Although choice of law and choice of venue provisions improve the likelihood that the parties' expectations will be honored, the enforceability of these provisions is subject to substantial litigation. For example, a court may disregard a choice of law provision if:

- The chosen state does not have a sufficient connection to the action.
- Public policy prohibits applying the law of the chosen state (for information on which states honor choice of law provisions in non-competes, see Non-Compete Laws: State Q&A Tool: Question 7 (http://us.practicallaw.com/1-505-9589#W_q7)).

As a result, employers must review the language of the non-compete for any relevant provisions, and also consider the nature of the parties' relationship as a whole to determine which state's law most likely applies (see Examining the Parties' Relationship as a Whole).  

Examining the Parties' Relationship as a Whole

In the absence of a choice of law provision, most courts will consider which state has the most significant relationship to the dispute. In doing so, courts typically consider multiple factors such as:

- Where the employer is headquartered.
- Where the employer's offices are located.
- Where the employee resides.
- Where the employee worked for the employer. For example, did the employee work out of one office or multiple offices? Absent a choice of law provision in a non-compete, this is the most important factor for many courts in deciding which state's law to apply.
- Whether the employee visited other offices of the employer or customers in other states.
- Whether the employee accessed the employer's network from outside the office.
- Where the employer's network is located.

EVALUATING ENFORCEABILITY UNDER STATE LAW

In general, to be enforceable, a non-compete must satisfy the requirements of:

- Contract law. In other words, it must be formed through the acceptance of an offer and be supported by consideration (see Is There Sufficient Consideration?).
- State law specific to non-competes. For example, the restrictions must be reasonable under state law (see Does the Non-Compete Meet Specific State Law Requirements?).

This section discusses the key issues for an employer to consider when evaluating the enforceability of a non-compete under state law.

Is There Sufficient Consideration?

One important issue when assessing the enforceability of a non-compete is whether it is supported by sufficient consideration. State law differs regarding whether employment or continued employment is sufficient consideration for a non-compete. In most jurisdictions, the offer of at-will employment alone is sufficient consideration (see, for example, Standard Register v. Keal, 2015 WL 3604265 (D. Haw. June 8, 2015), acknowledging split of authority among jurisdictions). Some courts require a minimum employment period, such as two years, for continued employment to be considered adequate consideration (see, for example, Fifield v. Premiere Dealer Svcs., Inc., 993 N.E.2d 938 (Ill. App. 2013), although not all federal courts in Illinois have followed the Fifield decision). However, some jurisdictions do not consider continued at-will employment without more, to be sufficient consideration, and require that an employer provide the employee with an additional benefit in exchange for signing a non-compete after employment has begun (see, for example, Poole v. Incentives Unlimited, Inc., 548 S.E.2d 207, 209 (S.C. 2001) and Labriola v. Pollard Grp. Inc., 100 P.3d 791, 794 (Wash. 2004)).

For information on what constitutes sufficient consideration under state law, see Non-Compete Laws: State Q&A Tool: Question 8 (http://us.practicallaw.com/1-505-9589#W_q8).

Does the Non-Compete Meet Specific State Law Requirements?

Before initiating legal action, employers should also consider whether the non-compete meets the requirements of state law. US law generally favors open competition. From a public policy perspective, non-competes can restrain trade and limit competition. Whether a court enforces a non-compete against an employee depends greatly on the circumstances of a particular case. In general, courts balance whether the employer's interest in enforcing the non-compete outweighs any hardship to the employee and potential injury to the public (see, for example, Maw v. Adv. Clinical Comms., Inc., 846 A.2d 604 (N.J. 2004) and Brentlinger Enters. v. Curran, 752 N.E.2d 994 (Ohio Ct. App. 2001)).

In general, a non-compete should be no more restrictive than reasonably necessary to protect the employer's legitimate business interests, such as confidential business information or trade secrets. Generally, courts consider the following factors to determine whether a non-compete is reasonable:

- The scope of activity the non-compete prohibits.
- Its duration.
- Its geographic scope.

For more information on what is considered reasonable duration and reasonable geographic scope under state law, see Non-Compete Laws: State Q&A Tool: Question 9 (http://us.practicallaw.com/1-505-9589#W_q9) and Question 10 (http://us.practicallaw.com/1-505-9589#W_q10).
Does the Employee Have Valid Defenses to Enforcement?

Non-competes can be challenged on various grounds and a court typically considers all legal and equitable defenses. Accordingly, before initiating legal action, an employer should consider all potential defenses that an employee may raise and evaluate the strength of the employee's arguments. Available defenses vary by state law but may include:

- The employer does not have a legitimate business interest that would justify enforcing the non-compete.
- The restrictions in the non-compete (duration, geographic scope) are overbroad.
- The non-compete is not supported by sufficient consideration (for more information, see Practice Note, Non-Compete Agreements with Employees: Traditional Contract Considerations [http://us.practicallaw.com/7-501-3409#a709345]).
- The employer materially breached an agreement by, for example, failing to pay the employee certain compensation (see, for example, Lee v. Pinsky, 895 So. 2d 1187 (Fla. Dist. Ct. App. 2005)).

If an employee was fired he may argue against enforcement of a non-compete on the grounds he was involuntarily terminated. In most states, non-competes are generally enforceable whether an employee is terminated or leaves voluntarily (see, for example, Coates v. Bastian Bros., Inc., 741 N.W.2d 539 (Mich. Ct. App. 2007) and Gold Coast Media, Inc. v. Meltzer, 751 So. 2d 645 (Fla. Dist. Ct. App. 1999)). However, a Montana court declined to enforce a non-compete after the former employer chose not to renew an employment contract (Wrigg v. Junkemier, Clark, Campanella, Stevens, P.C., 265 P.3d 646 (Mont. 2011)). Additionally, at least one state has indicated that the fact that an employee is terminated without cause is a factor courts can consider in determining whether a non-compete should be enforced (see, for example, Shepherd v. Pittsburgh Glass Works, LLC, 25 A.3d 1233 (Pa. Super. Ct. 2011)). Courts in other states have gone even further and held that for a non-compete to be enforceable, the employment must have been terminated by the employer for cause or voluntarily by the employee (see, for example, Bishop v. Lakeland Animal Hosp., P.C., 644 N.E.2d 33, 36-7 (Ill. App. 1994)).

For more information on state law regarding enforceability of non-competes when the employer terminates the employment relationship, see Non-Compete Laws: State Q&A Tool: Question 5 [http://us.practicallaw.com/1-505-9589#W_q5].

DOES STATE LAW PERMIT REFORMATION OF OVERBROAD NON-COMPETES?

Employers should consider the enforceability of a non-compete as written and whether, and to what extent, state law permits a court to modify or blue-pencil a non-compete so it is enforceable. Many states permit courts to modify or blue-pencil non-competes that are overbroad but otherwise enforceable. However, there is considerable variation from state to state. For example, some states (such as Connecticut) permit courts to modify a non-compete only if it contains a severability clause (see, for example, Gartner Group Inc. v. Mewes, 1992 WL 4766 (Conn. Super. Sept. 15, 2005)). Florida and Texas are two states that require a court to reform a non-compete in certain circumstances whereas courts in Minnesota have discretion about whether to modify (Tex. Bus. & Com. Code § 15.51(c), Fla. Stat. § 542.335(1)(c), and Klick v. Crosstown State Bank of Ham Lake, 372 N.W.2d 85 (Minn. Ct. App. 1985)). In some states, such as New York, a court will only modify an overly broad restriction if the employer sought in good faith to protect a legitimate business interest and did not engage in:

- Overreaching.
- Coercive use of dominant bargaining power.
- Other anti-competitive misconduct.

(BDO Seidman, 93 N.Y.2d at 394-5.)

For more information about which states permit courts to modify overbroad non-competes, see Non-Compete Laws: State Q&A Tool: Question 6 [http://us.practicallaw.com/1-505-9589#W_q6].

THE INEVITABLE DISCLOSURE DOCTRINE

If an employee's non-compete is unenforceable, employers in some jurisdictions may have a remedy against a departing employee based on the inevitable disclosure doctrine. In general, this doctrine applies if a former employee's new job requires him to use or disclose the employer's confidential information or trade secrets. In states that recognize the doctrine, such as Illinois, a court essentially implies a non-compete and bars the former employee from working in his new role (see, for example, Strata Marketing Inc. v. Murphy, 740 N.E.2d 1166, 1177 (Ill. App. 2000)). Some courts disfavor the inevitable disclosure doctrine and apply it only in rare circumstances (see, for example, Marietta Corp. v. Fairhurst, 754 N.Y.S.2d 62, 65-6 (3d Dep't 2003)). Other courts do not recognize the doctrine at all (see, for example, Pellerin v. Honeywell Intern. Inc., 877 F. Supp. 2d 983, 989 (S.D. Cal. 2012)).

In courts where it is recognized, the inevitable disclosure doctrine generally requires a higher burden of proof than what is required to enforce a non-compete. Courts consider the following factors to determine whether to grant an injunction based on inevitable disclosure:

- Whether the employer and new employer are direct competitors.
- Whether the employee's former and new positions are substantially similar.
- The value of the information at issue.

(See, for example, EarthWeb, Inc. v. Schlick, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).)

The DTSA has no impact on existing state law inevitable disclosure theories, except to the extent that the standard for obtaining injunctive relief may be different in federal than in state court. For more information about which states recognize the inevitable disclosure doctrine, see Non-Compete Laws: State Q&A Tool: Question 17 [http://us.practicallaw.com/1-505-9589#W_q17].

STRATEGIC DECISIONS INVOLVED WITH TAKING LEGAL ACTION

Employers seeking to enforce a non-compete through legal action have several options available. This section describes:

- The primary factors to consider before initiating legal action to enforce a non-compete.
Preparing for Non-Compete Litigation

- Whether to send a cease and desist letter before, or as an alternative to, initiating legal action.
- The advantages of bringing a declaratory judgment action.
- The tactical considerations involved once the employer decides to file a legal action for damages.
- Whether to request injunctive relief and the associated issues.

FACTORS TO CONSIDER BEFORE INITIATING LEGAL ACTION

Employers considering legal action to enforce a non-compete should evaluate the following factors:

- Does the employer have adequate evidence to demonstrate the need for enforcement? For example, are there first-hand witnesses to the employee’s conduct? Is there a business representative who can testify to the legitimate business interests of the employer in enforcing the non-compete agreement?
- Could litigation give rise to negative publicity which could in turn harm the employer’s business?
- Will litigation lead to bad morale or cause other employees to leave their employment? Is the employer initiating legal action to demonstrate to employees that it will take action to enforce non-competes?
- Is the employer prepared to commit the time necessary to proceed with litigation? For example, written discovery and depositions can be time-consuming and expensive.
- Do the costs involved with defending any potential counterclaims by the employee (such as a counterclaim for unpaid wages) outweigh the potential benefit of enforcing the non-compete?
- What is the risk that an action to enforce the non-compete will be unsuccessful? In other words, how confident is the employer that the non-compete is enforceable and that the employee breached it (see Key Steps to Assessing the Enforceability of a Non-Compete)?
- If the employer loses, will this encourage other employees to ignore their own non-competes with the employer?
- Has the employer been successful in enforcing similar non-competes in the past? Have the employer’s competitors succeeded in enforcing their non-competes?
- Will the employer be taking a position during litigation that could later be used against it if the employer defends a non-compete case?

SENDING A CEASE AND DESIST LETTER

Depending on the facts of a particular situation, a cease and desist letter can be a valuable preliminary step to legal action or a less expensive alternative. It can be used to:

- Remind an employee of his contractual obligations.
- Warn the employee that the employer plans to take legal action if the employee does not stop violating the non-compete.
- Demand that the employee preserve all potentially relevant evidence, including electronic files and data.

The potential advantages of a cease and desist letter and relevant strategic considerations are set out in this section.

Potential Advantages

Sending a cease and desist letter has several advantages:

- The cease and desist letter provides an employer with an opportunity to resolve a dispute without proceeding with litigation. Some individuals respond to the mere threat of legal action so the employer may be able to avoid the time and costs involved with litigation.
- An employer can learn valuable information about a suspected violation before commencing litigation. In many instances, an employee (or his counsel) responds to a cease and desist letter by arguing that the employee’s conduct is not unlawful or the non-compete is unenforceable. The response may include information about the circumstances that caused the employee to terminate his employment, details about his new job responsibilities, and whether he considers the new employer a direct competitor of the former employer.
- A cease and desist letter can demonstrate the employer’s interest in protecting its business from competition while it continues to investigate the suspected violation. Even if the letter does not resolve the dispute, it can demonstrate the employer’s reasonableness in trying to resolve the matter without court intervention.

Despite the potential advantages, it is not always practical for an employer to send a cease and desist letter. For example, due to the nature of an employee’s violation, an employer may choose to commence legal action as quickly as possible (see Filing a Legal Action for Damages).

Evaluating Whether to Send a Copy to the Employee’s New Employer

Depending on the facts of a particular situation, an employer may decide to send a copy of the cease and desist letter or a similar letter to the employee’s new employer. This puts the new employer on notice of the existence of the non-compete and the related contractual obligations. If the new employer continues to employ the individual, the employer may have a claim against the new employer for tortious interference with the employee’s contractual obligations.

However, the employer should consider the risk that if the letter is inaccurate or the employee is fired, as a result of the letter, the employer may face a claim by the new employer or the employee for:

- Libel.
- Defamation.
- Tortious interference with contract.
- Tortious interference with business relations.

In addition, an employer may find it strategically or psychologically advantageous to isolate the employee from his new employer by not sending the cease and desist letter to the employer. For more information, see Deciding Whether to Include the Employee’s New Employer in the Action.
The employer suspects that the new employer will be unwilling to file suit in federal court. In some circumstances it may be advantageous for an employer to bring a declaratory judgment action requesting that the court declare the non-compete to be valid and enforceable (for example, if an employee has threatened to breach the non-compete). If the employer has not yet suffered harm to its business, it may seek a declaratory judgment to prevent future breaches and harm to its business. In addition, filing for a declaratory judgment before the employee files has certain strategic advantages, such as allowing an employer to choose the timing and forum for litigation.

FILING A LEGAL ACTION FOR DAMAGES
As with other types of litigation, non-compete litigation typically begins when a party files a complaint. This section describes the tactical decisions an employer must make before filing a complaint, including:

- Whether to include the employee's new employer in the action.
- Where to file the lawsuit.
- The common causes of action related to violation of a non-compete.
- Whether to seek temporary, preliminary, or permanent injunctive relief in addition to damages (see Requesting Injunctive Relief).

For more information about commencing a federal lawsuit in general, see Practice Note, Commencing a Federal Lawsuit: Overview (http://us.practicallaw.com/w-002-2128).

Deciding Whether to Include the Employee's New Employer in the Action
In most non-compete litigations, employers name both the employee and the employee's new employer as parties to the action. There are various reasons for this approach, for example, the new employer may be:

- In a better financial position to compensate the employer for any loss to its business as a result of the employee's conduct.
- More willing to address the former employer's concerns when faced with the expense and distraction of ongoing litigation.
- Motivated to settle a legal action rather than receive any negative attention from ongoing litigation.

In contrast, an employer may be inclined to name just the employee if:

- Omitting the new employer allows the employer to file suit in federal court on the basis of diversity jurisdiction. Naming the new employer may defeat diversity jurisdiction, which means the employer will be unable to file the legal action in federal court, unless the employer can state a claim under the DTSA, which gives the employer a basis for federal question jurisdiction in federal court.
- The employer suspects that the new employer will be unwilling to pay the costs to defend a legal action against only the employee.

Where to File the Lawsuit
If there is no choice of forum provision in the non-compete, an employer must decide where to file the complaint. Depending on the circumstances of a particular case, an employer may have the option of filing a complaint in federal or state court. For claims arising on or after May 11, 2016, if an employer has evidence that an employee misappropriated trade secrets, it may opt to bring a claim under the DTSA in federal court, and join state law claims in the federal action under the court's supplemental jurisdiction.

Typically, the circumstances of the case determine which court is more advantageous (for more information, see Practice Note, Commencing a Federal Lawsuit: Overview: Determine Where to File the Case (http://us.practicallaw.com/5-509-1323#a802349)). In some jurisdictions, there are perceived or actual differences between federal and state judges regarding their:

- Predisposition to enforcing or not enforcing a non-compete.
- Judicial docket size.
- Willingness to issue injunctive relief.

Some state courts have dedicated equity divisions with assigned judges who are extremely knowledgeable about non-compete cases. These judges may be more inclined to give serious and prompt attention to the case. Additionally, because the threshold evidentiary standards may be different in federal and state court, there may be situations where an employer has sufficient evidence of a non-compete violation to proceed in one forum but not the other.

An employer also may have the option of filing in one or more states (whether in federal or state court). The choice of court may affect the outcome of the case, regardless of which state's laws apply to the dispute. For example, California judges are often reluctant to enforce noncompete agreements, even where the law of another state arguably governs the dispute (see, for example, Gatsinianis, D.C. v. Art Corporate Solutions, Inc., 2015 WL 4208595, at * 12 (C.D. Cal. July 10, 2015)). Employers should recognize that even if they have sufficient evidence of misappropriation to support a claim under the DTSA, the DTSA does not authorize an injunction placing conditions on a former employee's new employment if the injunction conflicts with applicable state law prohibiting or limiting restraints on the practice of a lawful profession, trade, or business, such as the California Business and Professions Code (Cal. Bus. & Prof. Code §§ 16600-16607).

Common Causes of Action

An employer’s investigation into the circumstances of the suspected violation helps determine which causes of action to pursue. In general, causes of action vary by state but can include the following claims against the employee:

- Breach of contract (for violation of non-compete, non-solicitation, or non-disclosure agreements).
- Tortious interference with contract (for interfering with the employer’s contracts with customers or clients).
- Breach of the duty of loyalty or fiduciary duty, if the employee acted contrary to the employer’s interests while he was still employed.
- Usurpation of corporate opportunities, if the employee identified a business opportunity and took steps to funnel the opportunity to his new employer while still employed by the former employer.
- Misappropriation of trade secrets under either or both:
  - the DTSA;
  - any applicable state law version of the Uniform Trade Secrets Act (UTSA) which has been adopted in some form in 48 states or state common law.
- Defamation, if the employee made defamatory statements to customers to encourage them to transfer their business to his new employer or to former coworkers in an attempt to recruit them.

Causes of action against the new employer vary by state, but can include:

- Tortious interference with contract (for interfering with the non-compete agreement).
- Tortious interference with business relations or prospective business relations.
- Usurpation of corporate opportunities, if the new employer encouraged or benefitted from the employee identifying a business opportunity and taking steps to funnel the opportunity to his new employer while still employed by the former employer.
- Misappropriation of trade secrets under the DTSA or applicable state statutory or common law, if:
  - the employee was acting under the new employer’s direction when he misappropriated the information; or
  - the new employer has received and benefited from the protected information.
- Defamation, if the employee made defamatory statements.

Employers frequently allege multiple causes of action in a complaint to increase the likelihood of success and because not all causes of action provide the same remedies. For more information on the remedies available under state law for employers enforcing non-compete agreements, see Non-Compete Laws: State Q&A Tool: Question 14 (http://us.practicallaw.com/1-505-9589#W_q14).

REQUESTING INJUNCTIVE RELIEF

If an employer initiates legal action solely to obtain damages for an employee’s violation of a non-compete, filing a complaint is likely the appropriate option (Filing a Legal Action for Damages). Often, however, an employer’s goal is twofold:

- To recover any damages the employer has suffered as a result of the employee’s conduct.
- To prevent the employee from inflicting any additional (and often difficult to quantify) harm on the employer’s business.

In these situations, an employer usually seeks injunctive relief. This section describes the types of injunctive relief and the key considerations involved with pursuing injunctive relief. For information regarding whether the presence of a liquidated damages clause in a non-compete agreement precludes injunctive relief under state law, see Non-Compete Laws: State Q&A Tool: Question 14 (http://us.practicallaw.com/1-505-9589#W_q14).

Remedies Under the DTSA

For claims arising on or after May 11, 2016, employers can sue former employees under the DTSA in federal court, regardless of the amount in controversy in the lawsuit. The remedies available under the DTSA are similar to those under the UTSA, but may provide broader relief to employers than by enforcing a non-compete agreement under state law. Available remedies include:

- An injunction to preserve evidence and prevent trade secret disclosure, provided that it does not:
  - prevent a person from entering into an employment relationship, and that any conditions placed on the employment relationship are based on evidence of threatened misappropriation and not merely on the information the person knows; or
  - otherwise conflict with an applicable state law prohibiting restraints on the practice of a lawful profession, trade, or business.
- Compensatory damages measured by:
  - actual loss and unjust enrichment, to the extent not accounted for in the actual loss calculation; or
  - a reasonable royalty for the unauthorized disclosure or use of the trade secret.
- Exemplary damages up to two times the amount of the damages for willful and malicious misappropriation.
- Reasonable attorneys’ fees for the prevailing party if:
  - a misappropriation claim is made in bad faith;
  - a motion to terminate an injunction is made or opposed in bad faith; or
  - a trade secret was willfully and maliciously misappropriated.

(18 U.S.C. § 1836(b)(3).)

Unlike the UTSA, the DTSA includes the extraordinary remedy of an ex parte seizure order, but includes protections designed to prevent abuse of this powerful remedy (18 U.S.C. § 1836(b)(2)).

The DTSA also includes protections for whistleblowers who disclose trade secrets under certain circumstances (18 U.S.C. § 1833(b)). Employers must give employees, contractors, and consultants notice of this potential immunity in any contract or agreement entered into or amended after May 11, 2016 that governs the use of a trade secret or other confidential information. However, an employer that does not provide the required notice is precluded from recovering

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exemplary damages or attorneys’ fees under the DTSA in an action against an employee to whom notice was not provided.

For more on the DTSA, see Article, Expert Q&A on the Defend Trade Secrets Act and Its Impact on Employers.

**Types of Injunctive Relief**

As with other types of litigation, there are two primary types of injunctions that a court can issue before it reaches a decision on the merits in a non-compete case:

- A temporary restraining order (TRO). The TRO is an emergency order that specifies what a party can and cannot do for a limited period of time. TROs are the fastest form of injunctive relief. In the non-compete context, employers can request that a court issue a TRO to preserve the status quo or provide other affirmative relief such as preventing an employee from working for a new employer, soliciting certain customers or employees, or revealing certain trade secrets or other confidential information. In critical and time-sensitive situations (such as where the revelation of trade secrets is imminent), some courts issue TROs without an appearance by the employee although some court rules require an employer to give the employee notice before seeking injunctive relief.

- A preliminary injunction (PI). PIs provide similar relief to a TRO. They specify what a party can and cannot do for a certain period of time. Courts typically hold an evidentiary hearing to determine whether a PI is necessary to preserve the status quo or provide other affirmative relief until the parties go to trial or the court can decide the merits of a permanent injunction. The court’s ruling on a PI can give the parties a prediction of how the court will rule when considering the merits of the case.

If the employee has misappropriated the employer’s trade secrets, the employer may be entitled to an injunction under the DTSA (see Remedies Under the DTSA).

After a trial on the merits, courts can issue a permanent injunction. The permanent injunction is considered a final decision.

As a practical matter, many non-compete cases settle before trial. Often, the parties agree to either a:

- Permanent injunction. This is advantageous to the employer because it is a public court order with precedential value. An employee violating an injunction can be held in contempt of court.

- Contractual agreement that the employee will not engage in certain activities for a defined period of time. Typically, employees are more likely to agree to a private settlement agreement rather than a permanent injunction.

For more information on obtaining injunctive relief in federal court, see:


- Practice Note, Preliminary Injunctive Relief: Drafting the Required Documents (Federal) (http://us.practicallaw.com/9-520-0532).

- Practice Note, Preliminary Injunctive Relief: Procedure for Obtaining Preliminary Injunctive Relief (Federal) (http://us.practicallaw.com/3-520-9724).


**Whether the Employer Has Sufficient Evidence?**

In most cases, gathering the evidence necessary to support a request for injunctive relief requires a tremendous amount of work in a relatively short period of time. Courts do not typically issue injunctions based on an employer’s mere concerns or suspicions that an employee is violating a non-compete. Instead, the employer must provide admissible evidence showing why injunctive relief is necessary.

Evidence is frequently presented through affidavits of individuals with direct knowledge that an employee violated the non-compete, for example, customers or coworkers. Before requesting injunctive relief, the employer should feel comfortable with a corporate representative’s testimony about both:

- The employer’s business interest in enforcing the non-compete.

- The potential harm to the employer if the court does not issue an injunction.

When deciding whether to request injunctive relief, employers should also consider that:

- If a court finds the employer’s evidence insufficient to merit an injunction or finds the non-compete agreement to be unenforceable, the employee (and the new employer) will feel more confident in their chances of success at trial and be less likely to settle.

- Under the DTSA, an injunction placing conditions on an employment relationship must be based on evidence of threatened misappropriation and not merely on the information the person knows, though that may be sufficient to support a claim under the inevitable disclosure doctrine.

- The employer can incur significant costs in a relatively short period of time. Injunctive proceedings move quickly and require many early-stage expenditures (such as forensic preservation and analysis).

- The employer’s business may suffer if seeking injunctive relief means relying on clients or customers to give up their time, for example, to provide affidavits or testimony.

- There is the potential for further exposure of the employer’s confidential information if court documents are not filed under seal (see Practice Note, Filing Documents Under Seal in Federal Court (http://us.practicallaw.com/5-562-9328)).

- The employer must rely on its strongest arguments in support of the non-compete agreement when arguing for injunctive relief. Therefore, the employee can benefit from observing the employer’s trial strategy at a very early stage.

An employer that lacks sufficient evidence to win a request for injunctive relief should instead consider filing a lawsuit and promptly initiating discovery, either on the standard schedule or on an expedited basis (Requesting Expedited Discovery). Although the employer could suffer harm to its business during the interim, the employer can better position itself for success when the court addresses the merits of the non-compete case.
Preparing for Non-Compete Litigation

The Standard for Relief

The standard for issuing an injunction varies by jurisdiction see Standard for Preliminary Injunctive Relief by Circuit Chart (http://us.practicallaw.com/8-524-0128). Typically, the party requesting injunctive relief bears the burden of proof (see, for example, A.H. Harris & Sons, Inc. v. Naiso, 2015 WL 1420132 (D. Conn. Mar. 30, 2015)). In general, courts analyze:

- Whether the employer is likely to prevail on the merits of the case at trial. To demonstrate likelihood of success on the merits, it is not necessary for an employer to prove its entire case when it requests the injunction.
- Whether the employer has suffered (or will suffer) irreparable harm. This typically means harm that cannot be remedied through the payment of monetary damages. In at least one state, violation of an enforceable non-compete creates a presumption of irreparable injury to the employer (Fla. Stat. § 542.335(1)(j)).
- Whether the harm faced by the employer outweighs the harm the employee may suffer if an injunction is issued.
- If the public's interest will be adversely affected by the injunction (for example, whether competition will be unduly stifled by issuance of the injunction).

(See, for example, HR Staffing Consultants, LLC v. Butts, 2015 WL 3492609, at *7 (D.N.J. June 2, 2015) and Walsh v. PAW Trucking, Inc., 942 So. 2d 446, 448 (Fla. Dist. Ct. App. 2006).)

For more information on what an employer must show when seeking a preliminary injunction, see Non-Compete Laws: State Q&A Tool: Question 15 (http://us.practicallaw.com/1-505-9589#W_q15).

Requesting Expedited Discovery

Employers are not always able to demonstrate a likelihood of success on the merits without conducting depositions or exchanging written discovery. An employer's knowledge about an employee's specific conduct may be limited even after conducting a fact investigation and interviewing witnesses. In these cases, an employer often requests that discovery take place on a shortened schedule. There is no guarantee a court will order expedited discovery, so the employer must be prepared to demonstrate to the court why it is necessary. Best practice is to:

- Narrowly tailor discovery requests to the issues that are relevant to the hearing for injunctive relief.
- Emphasize the potential harm the employer is seeking to prevent.
- Demonstrate the reasonableness of the requested information by attaching the proposed discovery requests to the employer's motion for injunctive relief.

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By Susan Gross Sholinsky and Peter A. Steinmeyer

May 26, 2016

On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act of 2016 ("DTSA"), which amends the Economic Espionage Act of 1996 to provide a federal cause of action to private companies for trade secret misappropriation.¹ The DTSA became effective immediately, but only applies to misappropriation occurring on or after the law’s effective date.

Aside from the federal protections provided under the DTSA, most states (and the District of Columbia, but not New York or Massachusetts) have already adopted a version of the Uniform Trade Secrets Act ("UTSA"), which provides a cause of action for the theft of trade secrets under state law. There are a number of differences, however, among these state laws. The DTSA does not eliminate or preempt state law remedies, but rather supplements them. Notably, the DTSA grants employers access to federal court—regardless of the amount in controversy—and provides uniformity across the patchwork of state laws.

Like the UTSA, the DTSA allows employers to obtain the following: (i) equitable remedies, (ii) actual damages, (iii) punitive damages, and (iv) reasonable attorneys’ fees.² In addition to these remedies, the DTSA includes the extraordinary remedy of an ex parte seizure order in certain extreme circumstances.

Immunity and Anti-Retaliation Under the DTSA

The DTSA contains immunity and anti-retaliation provisions intended to protect individuals who may need to disclose trade secrets. Specifically, the DTSA provides immunity to individuals under any federal or state trade secret law for the disclosure of a trade secret that is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney for the sole purpose of reporting or investigating a suspected violation of law, or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Further, if an individual files a lawsuit against his or her employer alleging retaliation for reporting a suspected violation of law, the individual may disclose the trade secret to his or

¹ The DTSA protects trade secrets that are "related to a product or service used in, or intended for use in, interstate or foreign commerce." 18 U.S.C. § 1836(b).
² The DTSA is significant for New York employers because the New York State law protecting trade secrets does not provide for employers to recover attorneys’ fees.
her attorney. The individual may also use the trade secret information in the court proceeding, provided that he or she files any document containing the trade secret under seal and does not disclose the trade secret except pursuant to court order.

**Required Notice Under the DTSA**

The DTSA requires that employers provide notice of the immunity and retaliation provisions (“Notice”) to employees, consultants, and independent contractors in any contract or agreement entered into after May 11, 2016, that governs the use of trade secrets or other confidential information, including the following types of documents:

- Employment agreements
- Independent contractor agreements
- Consulting agreements
- Separation and release of claims agreements
- Severance agreements
- Non-compete and non-solicitation agreements
- Confidentiality and proprietary rights agreements
- Similar agreements included in employee handbooks

Employers may provide the required Notice in one of the following two ways.

1. **Incorporate Specific Verbiage Provided in the DTSA in All Employment-Related Documents Governing Trade Secrets and Confidential Information**

The most direct way of providing the required Notice is to include the following provision in all such documents entered into or revised after the effective date of the law:

Pursuant to the Defend Trade Secrets Act of 2016, I understand that:

An individual may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (a) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding.

Further, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer’s trade secrets to the attorney and use the trade secret information in the court proceeding if the individual: (a) files any document containing the trade secret

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3 This requirement applies to consultants and independent contractors because, under the DTSA, “the term ‘employee’ includes any individual performing work as a contractor or consultant for an employer.”
under seal; and (b) does not disclose the trade secret, except pursuant to
court order.

2. Cross-Reference the Company’s Reporting Policy

Rather than inserting the above paragraphs into the employment-related documents
governing trade secrets and confidential information, employers can merely insert a cross-
reference in those documents to a policy that includes the employer’s procedures for
reporting a suspected violation of law (such as the company’s whistleblower policy), so long
as such a policy includes the information in the two paragraphs above. For example, the
employer may insert the following language into such documents:

Notwithstanding any other provisions of this Agreement, you may be entitled
to immunity and protection from retaliation under the Defend Trade Secrets
Act of 2016 for disclosing a trade secret under certain limited circumstances,
as set forth in Company’s [NAME OF EMPLOYER’S REPORTING POLICY].

The Potential Consequence of Not Providing the Required Notice

At present, there is no statutory penalty for not providing the required Notice. However, if an
employer fails to provide the required Notice, the employer cannot recover punitive
damages or attorneys’ fees under the DTSA from an employee to whom the required Notice
was not provided. (The employer could nevertheless obtain such punitive damages and
attorneys’ fees under state law in nearly every state.) There may also be adverse
consequences from a contractual perspective, or in a government audit, if the required
Notice is not provided.

What Employers Should Do Now

• Contact legal counsel for assistance in revising or creating any employment-related
document that governs the use of trade secrets or other confidential information to
include the required Notice.

• Contact legal counsel for assistance in amending or creating a reporting policy that
incorporates the required Notice to comply with the DTSA.

• Ensure that human resources staff is familiar with the notice provisions under the DTSA
so that they can incorporate the required Notice language in the applicable documents.

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4 Please note that, in most cases, consultants and independent contractors will not have been provided with the
company’s reporting policy. Therefore, in order to comply with the DTSA’s notice requirement, employers must
provide the required Notice to such individuals under the first option.
This document has been provided for informational purposes only and is not intended and should not be construed to constitute legal advice. Please consult your attorneys in connection with any fact-specific situation under federal law and the applicable state or local laws that may impose additional obligations on you and your company.

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