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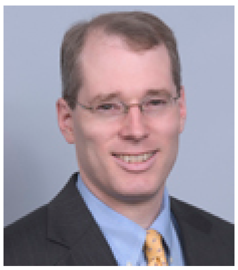
LABOR AND EMPLOYMENT



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In the area of trade secrets and non-compete law, there continue to be notable developments at the state and federal levels. Here are five recent ones.

1. Illinois Court Holds That, Absent Other Consideration, Two Years of Employment Is Required as Consideration for a Restrictive Covenant

In *Fifield v. Premier Dealer Services, Inc*., an Illinois Appellate Court recently held that, absent other consideration, two years of employment is required for a restrictive covenant to be deemed supported by adequate consideration, even where the employee signed the restrictive covenant as a condition to his employment offer—and even where the employee voluntarily resigned.

This case involved an individual, Eric Fifield, whose employment was terminated as a result of the sale of his employer to Premier Dealership Services ("PDS").

PDS offered to employ Fifield—but only if he agreed to sign a two-year, post-employment restrictive covenant. Fifield did so but then resigned from PDS after working there for just over three months.

The Appellate Court held that the restrictive covenant was unenforceable because "there must be at least two years or more of continued employment to constitute adequate consideration in support of a restrictive covenant." The Appellate Court further held that, for purposes of this two-year requirement, it does not matter whether the employee is terminated or resigns voluntarily.

The opinion does not indicate whether Fifield had a restrictive covenant with his prior employer that was transferred as a matter of law and/or assigned as part of the corporate transaction by which PDS purchased his prior employer. Similarly, the opinion does not indicate whether Fifield received any other consideration (other than the three months of employment) for his agreement to the restrictive covenant.

To our knowledge, this is the first Illinois state court decision to hold that an offer of employment, by itself, is not sufficient consideration for a restrictive covenant. Following the 2011 decision in *Reliable Fire Equipment Company v. Arredondo*, in which the Illinois Supreme Court modestly eased an employer's burden when seeking to enforce a restrictive covenant, it will be interesting to see whether the Illinois Supreme Court chooses to weigh in on this issue if asked to do so.

2. **Federal Trade Secret Enforcement Initiative Is Resulting in Swift Federal Criminal Enforcement Actions**

In February 2013, the U.S. Department of Justice announced a federal trade secret enforcement initiative that rested, in large part, on encouraging American businesses to adopt best practices in the area and diligent pursuit of civil remedies, and on parallel criminal law enforcement. As noted in the initiative outline, "The Department of Justice has made the investigation and prosecution of corporate and state sponsored trade secret theft a top priority."

Last month, events unfolded in New Jersey that showed this new policy initiative to be one involving real action. Those events began with a timely filed civil action by Epstein Becker Green ("EBG") on behalf of Becton, Dickinson & Company ("BD") that led to a May 31, 2013, restraining order against Ketankumar Maniar, a former BD employee planning to leave the country in days with BD trade secrets in his possession. The facts developed by BD and EBG, along with the civil court filings, were provided to federal law enforcement officials.

Realizing that the material Maniar had taken amounted to a "tool kit" for manufacturing a soon-to-be-released disposable pre-filled pen injector in which BD had invested substantial time and money, federal agents opened an investigation. They later executed a search warrant to retrieve from Maniar a number of storage devices and, on June 5, 2013, arrested him for criminal violation of 18 USC Section 1832. The arrest was widely reported locally, nationally, and internationally after it was announced by the U.S. Attorney for District of New Jersey and the FBI.

Such publicity is itself consistent with the initiative, which makes public awareness of the effort a foundational concept: "Highlighting [such cases and issues] can help mitigate the theft of trade secrets by encouraging all stakeholders, including the general public, to be aware of the detrimental effects of misappropriation on trade secret owners and the U.S. economy in general."

3. **Texas Adopts Uniform Trade Secrets Act; Massachusetts, New York, and North Carolina Remain Lone Holdouts**

On May 2, 2013, the Texas Uniform Trade Secrets Act ("UTSA") was signed into law by Governor Rick Perry. The new law becomes effective on September 1, 2013. Every state in the United States—except Massachusetts, New York, and North Carolina—has now adopted some variation of the model Uniform Trade Secrets Act.

The UTSA includes statutory definitions for terms such as “trade secrets,” “misappropriation,” and “wrongful means,” and provides several potential remedies for wrongs committed under the act, including injunctive relief, damages, and attorneys’ fees.

Until now, claims of misappropriation of trade secrets in Texas were governed by Texas common law, which, in large part, is similar to the UTSA.

One area in which Texas trade secret law will change come September 1 is in the possibility of recovering attorneys’ fees on a misappropriation claim, an element of relief that did not exist under Texas common law. Also, while Texas courts in the past have not expressly or consistently adopted the inevitable disclosure doctrine, plaintiffs asserting that doctrine in Texas will find some comfort in the UTSA’s prohibitions on “threatened,” as well as “actual” misappropriation.

Once enacted, the UTSA should serve to provide greater predictability for companies or individuals that are considering asserting claims in Texas courts for misappropriation of trade secrets. Texas’ adoption of the UTSA leaves New York as the only state that relies upon purely common law precedent with regard to trade secret claims. (Both Massachusetts and North Carolina have their own “Trade Secret Protection Acts.”)

So, which state will be the next to adopt the UTSA? Stay tuned.

4. **New York Court Finds Potential Liability for Sending “Cease and Desist” Letter**

Employers frequently send “cease and desist” letters to former employees (sometimes with a copy to the former employee’s new employer), setting forth applicable confidentiality or non-compete restrictions as well as any offending conduct by the former employee. These letters, if properly written, may be protected from libel claims by the judicial proceedings privilege. A recent case, however, stands as a reminder that there may still be liability for writing an “overly zealous”—and potentially inaccurate—cease-and-desist letter. As this case out of the U.S. District Court for the Southern District of New York demonstrates, it is critical to do your homework before sending (or having outside counsel send) such a letter to the new employer.

In *Gentile v. Olan*, the plaintiff had worked as a salesperson at Sales Crest Linen for approximately six years. During her employment, the plaintiff allegedly signed two employment agreements that contained promises to abide by post-employment non-solicitation provisions. Following her employment at Sales Crest Linen, the plaintiff went to work at White Plains Linen. Sometime after the plaintiff was hired by White Plains Linen, the defendant, the vice president of the successor of Sales Crest Linen, was allegedly told by a customer that the plaintiff had notified this customer that “she was working for White Plains.” Based on this information from the customer, at the direction of the defendant, legal counsel wrote to the plaintiff, stating that she had violated her employment agreement. The defendant’s counsel further wrote to the plaintiff’s new employer, threatening “appropriate action” should the plaintiff be permitted to “continue to contact and solicit customers of Sales Crest Linen." In response to receiving the letter from counsel, the plaintiff's new employer terminated her employment.

The plaintiff brought a lawsuit alleging that the defendant engaged in fraud and tortious interference with contract. In New York, the elements of a claim of tortious interference with contractual relations are: (i) a valid contract between the plaintiff and a third party, (ii) the defendant's knowledge of that contract, (iii) the defendant's intentional inducement of the third party to breach, and (iv) damages to the plaintiff resulting therefrom. As the district court in the *Gentile* case recognized, to establish a claim for tortious interference with at-will employment, there is a heightened standard requiring a demonstration that the defendant acted with "malice or employed wrongful means." In considering the plaintiff's claim in *Gentile*, Judge Baer applied the heightened standard since the plaintiff was an employee at-will.

In deciding whether to dismiss the tortious interference with contract claim on summary judgment, the district court considered the plaintiff's arguments that she did not sign the employment agreements at issue (and her signature was allegedly forged) and that she did not solicit customers (she may have merely notified them), thereby making the cease-and-desist letter to her employer unwarranted. In light of the fact that plaintiff may not have been prohibited from solicitation if she had not signed the employment agreements and that she may have not actually engaged in solicitation, the district court found that the cease-and-desist letter to the new employer could have been malicious. The plaintiff was, therefore, permitted to proceed with her tortious interference claim.

While cease-and-desist letters are useful tools in protecting company assets and information, employers should consider this case and its message before simply sending them. It is important that cease-and-desist letters be truthful and made in good faith. Accordingly, prior to sending such letters, employers should:

- review the former employee's obligations;
- fully gather the relevant facts concerning the employee's alleged wrongful conduct;
- accurately describe the former employee's wrongdoing; and
- consider the implications of sending the letter to the new employer.

5. New Connecticut Bill Would Provide Employee Protections as to Non-Competes in the Mergers-and-Acquisitions Context

The Connecticut General Assembly recently passed a bill that, if signed into law, will provide employees certain protections as to non-compete agreements in the mergers-and-acquisitions context.

Specifically, under the bill, if "(1) an employer is acquired by, or merged with, another employer, and (2) as a result of such merger or acquisition an employee of the employer is presented with a non-compete agreement as a condition of continued employment with the employer," any such non-compete agreement will be void "unless prior to entering into the agreement, the employer provides the employee with a written copy of the agreement and a reasonable period of time, of not less than seven calendar days, to consider the merits of entering into the agreement."

Under the bill, an employee would be able to waive his or her right to have a non-compete agreement voided under the law by signing a separate waiver agreement before entering into the non-compete agreement.

The new law would apply to Connecticut non-compete agreements “entered into, renewed or extended on or after October 1, 2013.”

The bill was transferred to Governor Malloy’s office on June 27, 2013, for his signature and would become effective on October 1, 2013. However, as of July 8, 2013, the bill had not been signed into law.

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