Panel: It's So Hard to Say Goodbye - Enforcing Restrictive Covenants Against Former Employees

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IT'S SO HARD TO SAY GOODBYE – ENFORCING RESTRICTIVE COVENANTS AGAINST FORMER EMPLOYEES

Panelists:
Shane Bohnen - Smiths Medical (Minneapolis, MN)
Shacara Delgado - Realogy Holdings (Madison, NJ)
Stacie Hartman - Schiff Hardin (Chicago, IL)
Nikki Nesbitt - Goodell DeVires (Baltimore, MD)

Moderator:
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Lowenstein Sandler

SAYING GOODBYE TO FORMER EMPLOYEES.

- **What can you do to protect your trade secrets and IP from intentional or unintentional disclosures by departing employees?**
- **What can you do to protect the company from employees taking your customer lists and other valuable proprietary information to your competitors?**
- **Are you helpless and unable to protect your company from employees that leave to start competing business ventures after learning the trade from you?**

RESTRICTIVE COVENANTS: POST-EMPLOYMENT CONTRACTS.

- **What is a restrictive covenant?**

  A restrictive covenant is a contractual clause restricting the post-employment activities of the worker for a limited period after the employment relationship ends in order to protect the employer's legitimate business interests.

- **Why would an employer need one?**

  Employees may acquire confidential information and key interests, including:

  - Client lists
  - Client requirements
  - Pricing information
  - Supplier information
  - Knowledge of future business strategies

PUBLIC POLICY CONCERNS.

- The law generally disfavors the use of restrictive covenants.
- They are often viewed as a restraint of trade.
- However, most courts will generally enforce one it if it is part of a valid agreement that is supported by consideration, is reasonable in time and scope, and serves to protect the employer's legitimate interests.

TYPES OF RESTRICTIVE COVENANTS.

- Non-competition agreements
- Non-solicitation agreements
- Non-dealing agreements
- Confidentiality agreements

"I'll agree to a pre-nup if you'll agree to a non-compete clause."

GENERALLY, TO BE ENFORCEABLE, A NON-COMPETE OR NON-SOLICIT AGREEMENT MUST BE REASONABLE.

- Temporal restrictions
- Scope restrictions
- Geographic restrictions
- Avoid blanket restrictions

CONSIDERATION.

Depending on the state, sufficient consideration can be:

- Offer of employment
- Continued employment
- Changes in terms of employment (e.g., promotion or raise)

NON-COMPETES.

NEVER ASSUME THAT A NON-COMPETITION AGREEMENT DRAFTED FOR ONE STATE WILL BE ENFORCEABLE IN ANOTHER.

Most states will closely scrutinize a non-competition agreement as restrictive of trade, but will generally (i) enforce it if it is part of a valid agreement (ii) that is supported by consideration, (iii) is reasonable in time and scope, and (iv) serves to protect the employer's legitimate interests.

But, California has adopted a very different approach…

CALIFORNIA.

- CA Business and Professions Code § 16600 **prohibits and makes void non-compete agreements** in the employment context.
- CA permits non-compete agreements only in connection with the sale or dissolution of corporations (§ 16601), partnerships (§ 16602), and limited liability corporations (§ 16602.5).
- Employee non-solicitation clauses are potentially enforceable, but the case law is unclear and courts have continued to narrow their enforceability.
  - See *Sunbelt Rentals, Inc. v. Victor*, No. C 13-4240 SBA, 2014 WL 492364, at *8 (N.D. Cal. Feb. 5, 2014)
- California Labor Code Section 432.5 makes it unlawful to require an employee to sign an agreement containing a term which the employer knows is prohibited by law. See § 432.5. Labor Code section 433 prescribes the penalty for a section 432.5 violation as a misdemeanor.

A MINORITY OF STATES . . .

...have found other ways to limit the enforceability of non-competes:

- In **Louisiana**, a non-compete must list the specific parishes where competition is prohibited, and the employer must do business in them, or the agreement will not be enforceable. LA. Rev. Stat. Ann. 23:921.

- In **Texas**, a non-compete agreement must be "ancillary to or part of an otherwise enforceable agreement," meaning that it will be unenforceable if employment is "at will." Tex. Bus. & Com. Code 15.50(1).

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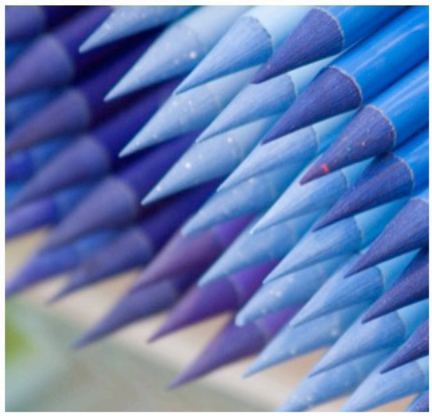
...have found other ways to limit the enforceability of non-competes:

- Legislation currently pending in **New Jersey** proposes to make all covenants agreements (non-competes, non-solicits and confidentiality agreements) unenforceable if the former employee qualifies for unemployment.
  - NJ Assembly Bill A-3970 (introduced April 4, 2013).
- In **New York**, the law is unsettled regarding whether post-employment non-compete agreement is enforceable against an employee terminated without cause.
  - *See Hyde v. KLS Professional Advisors Group, LLC*, 2012 U.S. App. LEXIS 21111 (2d Cir. Oct. 12, 2012).

BLUE PENCIL TEST.

This doctrine says that a court that finds a non-compete agreement too broad may edit the contract to make it enforceable provided the editing is limited to striking words or provisions. Some states will not apply this doctrine.



Make sure to check!

"Upset at you for breaching the non-compete? Of course not."

POTENTIAL ALTERNATIVES TO NON-COMPETES: "OTHER RESTRICTIVE COVENANTS."

Garden leave "which requires that the employee provide the employer with a specific notice period before terminating employment.

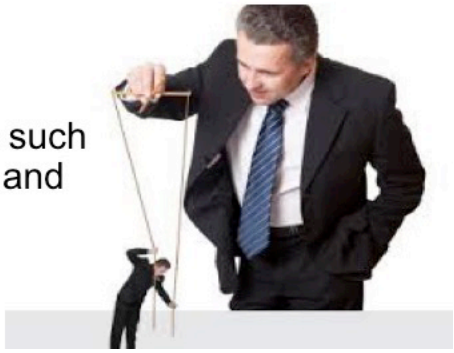
Forfeiture-for-competition agreements and compensation-for-competition agreements.

Safety net payments (after the employee and employer have broken off relations). Once payment is made, employee agrees to refrain from certain competitive actions.

POTENTIAL ALTERNATIVES TO NON-COMPETES: "OTHER RESTRICTIVE COVENANTS."

Fiduciary duties. Directors and senior employees who take steps to compete before leaving the employer may be in breach of their fiduciary duties.

Other IP protections, including trade secret misappropriation remedies such as injunctions or damages and invention assignments.



INEVITABLE DISCLOSURE DOCTRINE.

Can be used to enjoin former employee from working with direct competitor, where employee would "inevitably disclose" trade secrets based on notion that it's impossible to compartmentalize the knowledge or experience gained from prior employment – *PepsiCo Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995)

Need to establish:

1. new employer is direct competitor in relevant products, services
2. new position is nearly same: employee could not reasonably fulfill new responsibilities without utilizing trade secrets of former employer – esp. for senior executive/ enterprise-critical information
3. trade secrets at issue are highly valuable to both companies

[*] aggravating factors/evidence of bad faith

Success varies widely by jurisdiction

COVENANTS AND INDEPENDENT CONTRACTORS.

- Independent contractors are normally free to provide their services to anyone.
- A non-compete agreement that broadly prevents a contractor from working for competitors during or after the engagement is a strong indication of misclassification.
- Courts in most states will enforce them to the same extent they enforce covenants against employees.
- If a non-compete is critical it should be narrowly drafted to bar only competition that is likely to harm legitimate business interests.

COVENANTS AND INDEPENDENT CONTRACTORS.

Examples….

In **Tennessee**, an owner of nail salon brought action to enforce non-competition agreement against independent contractor nail technicians and owners of competing salon. ***Baker v. Hooper***, 50 S.W.3d 463 (Tenn. Ct. App. 2001). Tennessee law allows non-compete covenants in independent contractor relationships and that plaintiff had a legitimate business interest to protect.

BUT in **North Carolina** in ***Starkings Court Reporting Services, Inc. v. Collins***, 313 S.E.2d 614 (N.C. App. 1984), covenant not to compete exceeded the legitimate interests of the employer in an independent contractor context.

ISSUES SURROUNDING RESTRICTIVE COVENANTS AND SOCIAL MEDIA.

When communication occurs through social media it is often not immediately clear who is approaching whom. Unless there is a direct message it is difficult to determine violation of non-solicitation covenant.

Whether information posted on former employee's social media page is solicitation depends on the content and purpose of the message

- Public posts on personal pages are not likely solicitation.

- Social media activity may be used as evidence of a violation of a restrictive covenant.

CONSIDERATIONS FOR PROSPECTIVE EMPLOYERS.

Hiring employers should pay attention to whether a prospective employee has a restrictive covenant.

If an employer knowingly employs an individual in violation of a restrictive covenant, the employer could be liable to the former employer under an intentional interference with contractual relations claim.

INTENTIONAL INTERFERENCE WITH CONTRACTUAL RELATIONS.

The former employer must prove that:

- it had a contract with the employee;
- the prospective employer knowingly interfered with that contract (typically by hiring the employee, accepting confidential information, or encouraging solicitation by the employee)
- the prospective employer's interference was improper in motive or means
- the former employer was harmed.

REMEDIES AGAINST PROSPECTIVE EMPLOYER.

The former employer can seek:

- Temporary restraining order / preliminary injunction
- Damages, usually in the form of lost profits

AVOIDING LIABILITY TO A NEW HIRE'S FORMER EMPLOYER.

When recruiting a new hire:

- Ask about restrictive covenants in place
- Obtain a copy of the employee's employment agreement
- Have counsel evaluate the enforceability of the agreement
- Ensure that your company does not employ the new hire in a way that violates any enforceable restrictive covenants

IF YOU TAKE AWAY NOTHING ELSE, REMEMBER:

Employers should make sure that there is consideration.

Employers should consider having new employees execute restrictive covenants while still in their former jobs to avoid claims that the employee signed under duress after joining the company.

Employers should develop an action plan in advance so that they are prepared in advance to enforce their restrictive covenants should the need arise.

IF YOU TAKE AWAY NOTHING ELSE, REMEMBER:

Employers should create robust confidentiality and invention assignment agreements.

Employers should conduct effective entrance and exit interview protocols.

Employers should conduct employee education programs that create a culture of confidentiality whereby employees understand the value of protecting company data.

THE END

Employees are changing positions like numbers in a Fifteen Puzzle and, when they go, they take with them trade secrets, customer lists and other sensitive, valuable and proprietary information. What's an employer to do? Written restrictive covenants are the usual knee-jerk response. But courts look for inequality of bargaining power and excessive scope and sometimes refuse to enforce. Our panel will discuss enforceable restrictive covenants, including standalone agreements separate from provisions within employment agreements, as well as considerations of reasonableness of temporal and geographic scope, adequate consideration, and appropriate remedies.

Panelists:
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WHAT IS A RESTRICTIVE COVENANT?
A restrictive covenant, also known as a post-employment agreement or contract, is a contractual clause restricting the post-employment activities of the worker for a limited period after the employment relationship ends in order to protect the employer's business interests.

NEED FOR RESTRICTIVE COVENANTS.
Employees may acquire confidential information and

knowledge of key interests including things such as:

- company trade secrets and intellectual property;
- customer lists;
- client-specific needs, requirements, and demographic information;
- pricing information;
- supplier information;
- marketing and business plans including product launch dates; and
- future business strategies.

Employees may be tempted to use this information on their own behalf for personal gain or on behalf of a new employer/ competitor.

Many employers try to protect their interest from such threats by having their employees execute restrictive covenants upon commencing their employment.

PUBLIC POLICY REGARDING RESTRICTIVE COVENANTS.

- The law generally disfavors the use of restrictive covenants.
- They are often viewed as a restraint of trade.
- However, most courts will generally enforce a restrictive covenant if it is part of a valid agreement that is supported by consideration, is reasonable in time and scope, and serves to protect the employer's legitimate interests.

TYPES OF RESTRICTIVE COVENANTS.

- Non-competition agreements:
    - Preclude the employee from competing with the employer and/or from working for a competitor
    - Non-compete covenants may severely limit the ability of an individual to make a living for the duration of the covenant period.
    - Therefore, non-competes are the most difficult restrictive covenant to enforce.
- Non-solicitation agreements:
    - Prevent employee from soliciting other employees.
    - Are generally enforceable.
- Non-dealing agreements:
    - Prevent employee from doing business with former employer's customers or potential customers.
    - Are generally enforceable.
- Confidentiality agreements:
    - Impose duty to keep secret trade secrets or other confidential information.
    - Which one is appropriate will depend on the business interests that the employer is seeking to protect.

GENERALLY, TO BE ENFORCEABLE, A NON-COMPETE OR NON-SOLICIT AGREEMENT MUST BE REASONABLE.

- Temporal Restrictions: The shorter the better.
- Scope Restrictions: Does it go further than is necessary to protect legitimate business interest?
- Geographic Restrictions: A geographic scope covering the entire U.S. or the world (i.e., "to infinity and beyond") is likely unenforceable.

WHO SHOULD BE BOUND?

- Blanket restrictive covenants applying to an entire workforce are difficult to enforce.
- Covenants should be tailored to the individual employee (or groups of employees) depending on their potential threat to a legitimate business interest.

CONSIDERATION.

- Depending on the state, sufficient consideration can be:
    - Offer of employment.
    - Continued employment.
    - Changes in terms of employment (e.g., promotion or raise).
- State statutes do not give much guidance on what is adequate consideration in restrictive covenants. One study of state statutes done in 2006, revealed that only two states even mentioned consideration:
    - Oregon (OR. REV. STAT. § 653.295(1), providing that a non-compete entered into after the start of employment will not be enforced without

additional consideration from the employer) and

- Georgia (GA. CODE ANN. § 13-8-2.1(b)(1)(D), (G) (2001)). Before it was repealed in 2009, the Act provided, among other things, that "(a) A contract that is against the policy of the law cannot be enforced. Contracts deemed contrary to public policy include but are not limited to:
  - Contracts tending to corrupt legislation or the judiciary;
  - Contracts in general restraint of trade, as distinguished from contracts which restrict certain competitive activities, as provided in Article 4 of this chapter;
  - Contracts to evade or oppose the revenue laws of another country;
  - Wagering contracts; or
  - Contracts of maintenance or champerty."

Thus, before the old law was repealed, many if not most non-compete agreements were voided altogether as "against public policy."

- In some states, courts generally view continued employment as sufficient consideration.
  - In Alabama, the District Court held that covenant not to compete for one year in trade area which was signed by salesman during term of employment as condition of continued employment was enforceable under Alabama law. Affiliated Paper Cos., Inc. v. Hughes, 667 F. Supp. 1436 (N.D. Ala. 1987).
  - More recently, a federal court in West Virginia applied Alabama law and found that in an employer's motion for preliminary injunction, company was likely to prevail on claim that non-compete and nondisclosure agreement was supported by adequate consideration. McGough v. Nalco Co., 496 F. Supp. 2d 729 (N.D.W. Va. 2007). Interestingly, in this case, the contract with its covenants was only signed 10 days after the plaintiff began his at-will employment
  - In Ohio in 2004, the Supreme Court held that consideration existed to support noncompetition agreement when employer continued at-will employment relationship, in exchange for employee's assent to proffered noncompetition agreement. Lake Land Emp. Grp. of Akron, LLC v. Columber, 2004-Ohio-786, 101 Ohio St. 3d 242, 804 N.E.2d 27 (2004).

  The court noted that despite a split among jurisdictions on this issue, courts have found sufficient consideration in an at-will employment where a substantial period of employment ensues after the covenant is executed.

- Note that some states still require more for consideration.
  - In Minnesota, for example, the Supreme Court held that a covenant not to compete signed by physician subsequent to his original contract with clinic was not bargained for and, hence, was unenforceable for lack of consideration in that absolutely no distinction was made between signers and nonsigners. The court noted that indirect benefit to an employee by a benefit to corporation of which he was a shareholder was insufficient when other shareholders who had not signed received same benefit. Freeman v. Duluth Clinic, Inc., 334 N.W.2d 626 (Minn. 1983),

    Specifically, the court stated that the adequacy of consideration for restrictive covenants signed during an ongoing employment relationship will depend upon the facts of each case and that the mere continuation of employment can be used to uphold coercive agreements, but the covenant must be bargained for and provide the employee with real advantages.
  - This approach was again upheld in Nott Co. v. Eberhardt, where the court found no consideration was provided because there was no bargaining for it. No. A13-1061, 2014 WL 2441118, at *5 (Minn. Ct. App. June 2, 2014), review denied (Aug. 19, 2014).

    However, the Eberhardt Court did suggest that while continued employment alone is not sufficient in Minnesota, a material change in employment status could serve as consideration.
  - Keep a look out for Illinois – the law is in motion and there appears to be a split: in the summer of 2013, long held beliefs about required consideration for a restrictive covenant under Illinois law were undermined when the Illinois Appellate Court for the First District held in Fifield

v. Premier Dealer Services, Inc., 993 N.E.2d 938 (Ill. 2013), 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. Since then, two Federal district judges in Chicago split over whether to follow Fifield and the Illinois Supreme Court has chosen not to weigh in.

- The Illinois Appellate Court for the Third District in Prairie Rheumatology Associates, S.C. v. Maria Francis, D.O., 2014 Ill. App (3d) 140338 (Ill. App. Ct. 2014) held that, because Dr. Francis was not employed for 24 months after entering into a non-compete, and because Dr. Francis "received little or no additional benefit from PRA in exchange for her agreement not to compete," it was not supported by adequate consideration (though PRA argued she received PRA's assistance in obtaining hospital membership and staff privileges, access to previously unknown referral sources and opportunities for expedited advancement).

  The Appellate Court found "that PRA failed to assist Dr. Francis in obtaining her hospital credentials and neglected to introduce Dr. Francis to referral sources," that it did not provide access to previously unknown referral sources, and that purported "expedited advancement and partnership opportunities" were "illusory" because "[e]ven though the employment agreement provided that PRA would consider Dr. Francis for partnership after 18 months, there was no guarantee she would become a partner and make shareholder."

- Interestingly, the Second Circuit in Bradford v. New York Times Co., 501 F.2d 51, 58 (2d Cir. 1974), applying New York state law, upheld a 10-year non-compete covenant where the employee was to continue to receive annual installments of stock as long as he did not compete. This continued installment was deemed a consideration. Specifically, the court said there was "a continuing consideration being paid for his loyalty and good will." This suggests that a non-compete agreement is commonly signed at the end of employment in exchange for some benefit or additional compensation, such as severance benefits. See infra, discussion of safety net payments.

  - Employers should make sure to check state laws to ensure requirements for consideration are met.

NON-COMPETES: NEVER ASSUME THAT A NON-COMPETITION AGREEMENT DRAFTED FOR ONE STATE WILL BE ENFORCEABLE IN ANOTHER.

- Some state laws can be very specific:

  As mentioned, most states will closely scrutinize a non-competition agreement as restrictive of trade, but will generally enforce it if it is part of a valid agreement that is supported by consideration, is reasonable in time and scope, and serves to protect the employer's legitimate interests.

  California has adopted a very different approach.

  CA Business and Professions Code § 16600 prohibits and makes void non-compete agreements in the employment context.

  CA permits non-compete agreements only in connection with the sale or dissolution of corporations (§ 16601), partnerships (§ 16602), and limited liability corporations (§ 16602.5).

  Note, however, Fillpoint, LLC, v. Maas et al., Case No. G045057, 2012 Cal. App. LEXIS 914 (Cal. Ct. App. Aug. 24, 2012), in which the California Court of Appeal refused to enforce the portion of a non-compete agreement of a selling shareholder that began to run upon termination of his employment with the buyer (as opposed to the closing).

- In a key decision from 2008, Edwards v. Arthur Andersen, 44 Cal. 4th 937, 949 (2008), the California Supreme Court made clear that employers generally may not lawfully require employees to enter into covenants not to compete, including customer non-solicitation provisions. In addition, the court held that there was no "narrow restraint" exception to general rule voiding noncompetition agreements.

  - The Edwards Court expressly declined to address the "trade secret" exception to § 16600, which was created by the Court in 1965 in Muggill v. Reuben H. Donnelley Corp., 62 Cal.2d 239, 242 (1965). Edwards, 44 Cal. 4th at 946 n.4. Therefore, non-compete agreements necessary to protect an employer's trade secrets may be enforceable.

- But see Dowell v. Biosense Webster, Inc., 179 Cal. App. 4th 564, 102 Cal. Rptr. 3d 1 (2009) (doubting, in dicta, the continued viability of the common law trade secret exception to covenants not to compete).

- Employee non-solicitation clauses are likely unenforceable, but the law is unsettled.

  - The most cited case in support of the enforceability of employee non-solicitation clauses, Loral Corp. v. Moyes, 174 Cal. App. 3d 268 (Cal. Ct. App. 1985), involving a clause that extended to all of the company's employees, with no explicit geographic limitation.

  - On the other hand, in Cap Gemini America, Inc. v. Judd, 597 N.E.2d 1272 (Ind. Ct. App. 1992), an Indiana court applying CA law found that a non-solicitation clause prohibiting a former CA employee from soliciting the company's employees in branch offices in Indiana where the former employee had not worked was too broad and therefore unenforceable under California law.

  - In Sunbelt Rentals, Inc. v. Victor, No. C 13-4240 SBA, 2014 WL 492364, at *8 (N.D. Cal. Feb. 5, 2014), the court held that an employment agreement's non-solicitation provision was an invalid non-competition provision under §16600.

    In reaching its decision, the Court noted that the agreement would have prevented the employee from soliciting any of the employer's customers who had done business with the employer during the preceding 12-month period even if the customer was no longer doing business with the employer.

  - The Court also determined that even if the non-solicitation covenant would have applied, the employer was unable to demonstrate that the former employee actually used the information but merely had access to it.

- California Labor Code Section 432.5 makes it unlawful for an employer to require an employee to sign an agreement containing a term which the employer knows is prohibited by law. See Cal. Lab. Code § 432.5. Labor Code section 433 prescribes the penalty for a section 432.5 violation as a misdemeanor. Id. § 433.

  A violation of this statute is punishable by imprisonment in a county jail not exceeding six months, by a fine not exceeding $1,000, or both. Id. § 23. It is not clear that a non-compete provision is "prohibited by law," but it is good to keep in mind that such penalties are a possibility in extreme cases.

- The court in D'Sa v. Playhut, 85 Cal. App. 4th 927 (2000) held that termination of an employee who refuses to sign an unenforceable non-compete agreement can expose an employer to liability (potentially including punitive damages) for wrongful termination in violation of public policy.

- The court in Silguero v. Creteguard, Inc., 187 Cal. App. 4th 60 (2010) held that a termination of an employee by reason of that employee's execution of a non-compete agreement with a former employer can expose an employer to liability for wrongful termination in violation of public policy.

  Note that the Southern District of California did not depart from Silguero, but it did refuse to expand its applicability in Tautges v. Global Datacenter Mgmt., Inc., No. 09CV785 JLS BGS, 2010 WL 3988046, at *3 (S.D. Cal. Oct. 12, 2010). There, plaintiff sought to amend his first amended complaint to add a claim for wrongful termination, stating that Silguero created a new basis for wrongful termination under California Business and Professions Code § 16600.

  However, according to the court, plaintiff actually sought to extend Silguero far beyond the four corners of the decision and even further beyond § 16600. The court explained that section 16600 voids contracts limiting employee mobility. VLS, the case heavily relied on in Silguero, used § 16600 to void a no-raiding contract between two employers and Silguero voided one employer's tacit acceptance of another employer's non-compete contract.

  All of these had an agreement at issue. But in Tautges there was no agreement, express or implied. "Reading Silguero as Plaintiff wishes," said the court, "would tear the decision from its foundation. Plaintiff did not have a valid § 16600 claim prior to Silguero, and he cannot find one after."

- Somewhere in between the majority of states and California are a small number of states that have found other ways to limit the enforceability of non-competes.

  - In Louisiana, a non-compete must list the specific parishes where competition is prohibited, and the employer must do business in them, or the agreement will not be enforceable. LA. Rev. Stat. Ann. 23:921.

- In Texas, a non-compete agreement must be "ancillary to or part of an otherwise enforceable agreement," meaning that it will be unenforceable if employment is "at will." Tex. Bus. & Com. Code 15.50(1).

- Legislation currently pending in New Jersey proposes to make all covenants agreements (non-competes, non-solicits and confidentiality agreements) unenforceable if the former employee qualifies for unemployment.

  - NJ Assembly Bill A-3970 (introduced April 4, 2013).

- In New York, the law is unsettled regarding whether post-employment non-compete agreement is enforceable against an employee terminated without cause.

  - See Hyde v. KLS Prof'l Advisors Grp., LLC, 500 F. App'x 24 (2d Cir. 2012)(calling into question whether a noncompete when an employee is terminated without cause is per se unenforceable). http://scholarship.law.stjohns.edu/cgi/viewcontent.cgi?article=1188&context=lawreview

BLUE PENCIL TEST.

- This doctrine says that a court that finds a non-compete agreement too broad may edit the contract to make it enforceable provided the editing is limited to striking words or provisions. Some states will not apply this doctrine. Make sure to check!

  - In Illinois, "it has long been recognized by the courts . . . that if the area covered by a restrictive covenant is found to be unreasonable as to area, it may be limited to an area which is reasonable in order to protect the proper interests of the employer and accomplish the purpose of the covenant." Gillespie v. Carbondale & Marion Eye Ctrs., Ltd., 251 Ill. App. 3d 625, 629 (5th Dist. 1993).

  - In Virginia, neither the Supreme Court, the U.S. Court of Appeals for the Fourth Circuit, nor any of the state circuit courts has ever adopted the blue pencil rule or any approach to judicial modification. See, e.g., Richardson v. Paxton, Co., 203 Va. 790, 795 (1962); Alston Studios, Inc. v. Lloyd v. Gress & Assocs., 492 F.2d 279, 285 (4th Cir. 1974).

POTENTIAL ALTERNATIVES TO NON-COMPETES: "OTHER RESTRICTIVE COVENANTS."

- Garden Leave:

  - These agreements require that an employee provide the employer with a specific notice period before terminating employment. During this notice time, the employer normally does not typically report to work.

  - Instead, the employee is paid salary and benefits even though he or she is not reporting to work for a specified period after the resignation. Since the employee technically remains employed, she can neither work for a competitor nor do anything else to harm or violate their duty of loyalty to the former employer. http://www.njlawblog.com/files/2014/08/TBL-MFK-NJLJ-4_18_11.pdf

  - When enforceable, Garden Leave agreements are generally effective at protecting the employer from misappropriation of confidential proprietary information as well as direct competition created by the departing employee

  - New York law granted a preliminary injunction enforcing a worldwide non-compete restricting a senior executive of Estee Lauder from working for a direct competitor, notwithstanding a lack of geographic limitation. In making its decision, the court considered actors such as the magnitude of the executive's responsibilities while in the company's employ and that the executive would continue to receive his salary during the period of restriction contributed to its determination that the non-compete was not overly broad geographically (though it did shorten the non-compete). Estee Lauder Cos. Inc. v. Batra, 430 F. Supp. 2d 158, 180 (S.D.N.Y. 2006) (citing

Bradford).

- Forfeiture-for-Competition Agreements: These agreements, also known as "compensation-for-competition agreements," require employees to forfeit certain benefits or pay some amount of money if the employee engages in activities that compete with the former employer.

- Note that some courts will not enforce this type of provision when termination was without cause. See e.g, Brown & Brown, Inc. v. Johnson, 115 A.D.3d 162, 170 (2014) (holding that "New York policies preclude the enforcement of a forfeiture-for-competition clause where the termination of employment is involuntary and without cause, i.e., a clause requiring the employee to comply with a restrictive covenant in order to continue receiving post-employment benefits to which the employee otherwise would be entitled.")(emphasis added).

- Safety Net Payments:

    - These are payments that are applied after the employee and employer have broken off all relations with one another. Once payment is made, the employee agrees to refrain from certain competitive actions, such as contacting specified customers.

    - In this case, the safety net payment does the same thing as the garden leave payment does as far as ensuring that an employee cannot claim that the contract imposes undue hardship in their search for new employment.

- Fiduciary Duties: Directors and senior employees who take steps to compete before leaving the employer may be in breach of their fiduciary duties.

- Other - IP Protections:

    - Trade secret misappropriation remedies such as injunctions or damages

    - Invention assignments

COVENANTS AND INDEPENDENT CONTRACTORS.

- Independent contractors are normally free to provide their services to anyone. A non-compete agreement that broadly prevents a contractor from working for competitors during or after the engagement is a strong indication of misclassification. As such, it appears that courts in most states will enforce them to the same extent as they enforce similar covenants against employees.

- If a non-compete is critical to the client, it should be narrowly drafted to bar only competition that is likely to harm the client's legitimate business interests. The key is that it must be no broader than necessary, or the contractor's classification may be put at risk. See Figueroa v. Precision Surgical, Inc., 423 F. Supp. 205 (3d Cir. 2011).

    - In Baker v. Hooper, 50 S.W.3d 463 (Tenn. Ct. App. 2001), a Tennessee court upheld the non-compete (though it reduced the non-compete period). There, an owner of nail salon brought action to enforce non-competition agreement against two independent contractor nail technicians and owners of competing salon. The court stated that it had previously held that Tennessee law allows non-compete covenants in independent contractor relationships, and that plaintiff had a legitimate business interest to protect.

    - See also Bristol Window and Door, Inc. v. Hoogenstyn, 650 N.W.2d 670, 673-674 (Mich. App. 2002)(finding that covenant not to compete in independent contractor relationship can be enforced so long as it is reasonable).

    - See EDIX Media Grp., Inc. v. Mahani, No. CIV.A. 2186-N, 2006 WL 3742595, at *8 (Del. Ch. Dec. 12, 2006)(enforcing (but narrowing) a non-competition agreement against an independent contractor, but limiting it to actions that are the same as, and compete directly with, employer's own business activities).

      But see Brian's 1:1 Fitness v. Woodward, No. 2012-CV-00838, slip op. (N.H. Super. Ct. Aug. 8, 2013), available at http://www.courts.state.nh.us/superior/orders/bcdd/Brians-Fitness-vWoodward.pdf (voiding a non-compete that imposed restraints on an independent contractor "greater than necessary to protect the legitimate interests" of the plaintiff-company, "based on the nature of its relationship" with the independent contractor.).

      Similarly in Starkings Court Reporting Servs., Inc. v. Collins, 313 S.E.2d 614 (N.C. App. 1984), a North Carolina court found that a covenant not to compete exceeded the legitimate interests of the employer in an independent contractor context.

ISSUES SURROUNDING RESTRICTIVE COVENANTS AND SOCIAL MEDIA.

- When communication occurs through social media channels, it is often not immediately clear who is approaching whom. This makes it difficult to determine whether a non-solicitation covenant is being violated. However, direct messages to restricted parties are usually violations. The District of Minnesota in TEKsystems, Inc. v. Hammernick, Civ. No. 10-CV-00819, 2010 WL 1624258 (D. Minn. Mar. 16, 2010) held that direct messages sent by a former employee to a current contract employees on LinkedIn were a violation of a non-solicitation agreement. http://moritzlaw.osu.edu/students/groups/oslj/files/2012/01/Anderson.pdf

- Whether information posted on former employee's social media page is solicitation depends on the content and purpose of the message. Existing case law suggests that an employee updating his profile or "tweeting" to inform his friends, connections, or followers of a potential career move would not be violating his non-solicitation agreement. Cintas Corp. v. Perry, 517 F.3d 459, 467–68 (7th Cir. 2008) (holding that a former employee's conversations with colleagues and customers regarding a potential career move to a competitor did not constitute solicitation violative of employee's restrictive covenants).

- Public posts on personal pages are not likely to be considered solicitation. In Pre-Paid Legal Services, Inc. v. Cahill, No. 12-CV-346, Doc. 31 (Jan. 22, 2013), a former employee's public posts on his personal Facebook page did not constitute solicitation of his former co-workers under the terms of his non-solicitation agreement with his former employer. The posts touted his professional satisfaction with his new employer and his new employer's products. http://www.technologylawsource.com/2013/02/articles/social-media-1/facebook-posts-not-solicitation-under-former-employees-restrictive-covenant-agreement/

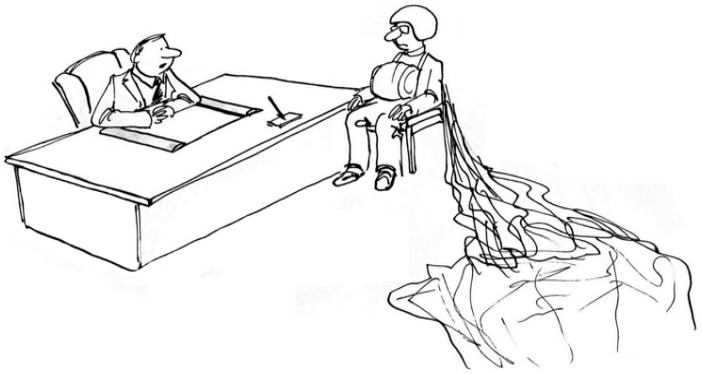
- Social media activity may be used as evidence of a violation of a restrictive covenant. In Kelly Services, Inc. v. Marzullo, 591 F. Supp. 2d 924, 929-30 (E.D. Mich. 2008) the court used evidence from the former employee's LinkedIn page indicating that she was working for a competitor as evidence of a violation of the non-compete.

- Advice for employers:

    - Employers can see only public social media postings, so there is no way to know whether a former employee is soliciting restricted parties through private posts or messages.

    - The only course of action is to have a detailed social media policy, explaining to the employee his or her duties under their restrictive covenants.

CONCLUSIONS / TAKEAWAYS.



"I'm concerned you might bail."

- Employers should make sure that restrictive covenants are current and take into account current applicable law and include a current date, i.e., "Revised July 1, 2014" or "Amended January 1, 2015."

- Employers should be mindful that the "title" may impact enforceability in certain jurisdictions. For example, instead of titling the agreement "restrictive covenants," "noncompete," or "nonsolicitation" consider calling the agreement "postemployment obligations" or some similar language.

- Employers should have identified a legitimate interest that they are trying to protect and then make sure that the covenant is not broader than necessary to protect that interest. In other words, the restriction should be limited in terms of scope, geographic, and temporal restrictions.

- Employers should make sure that there is consideration.

- Employers should consider having new employees execute restrictive covenants while still in their former jobs to avoid claims that the employee signed under duress after joining the company.

- Employers should develop an action plan in advance so that they are prepared in advance to enforce their restrictive covenants should the need arise. For example, employers should have a protocol in place to review a departing employee's electronic records to determine whether there have been an unusual downloads or data

transfer.

- Employers should create robust confidentiality and invention assignment agreements and keep careful records of which employees have access to specific categories of Company information.

- Employers should conduct effective entrance and exit interview protocols.

- Employers worried about their IP should conduct employee education programs that create a culture of confidentiality whereby employees understand the value of protecting company data.

- Employers should implement effective trade secret protection measures that take into account new technologies and threats, including cyber threats and social media/cloud computer issues.

Faculty Biography

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Miguel is a national leader, trusted advisor, strategist, and a connector based in DC and the New York City metro area.

In 2015, the New Jersey Law Journal honored Miguel with its first-ever “Lifetime Achievement Award,” for his professional accomplishments and work advancing the legal profession. In 2014, he was named to the Lawyers of Color “Power List,” a comprehensive catalog of the nation’s most influential minority attorneys and in 2013, he was featured on Hispanic Business’ List of “Top 50 Hispanic Influentials” in the United States.

He is a homegrown litigation partner at Lowenstein Sandler with more than 15 years of experience. He works to enhance and protect some of the world’s most iconic brands by advising companies on trademark and employment law issues and representing clients in business litigation. His strategic approach also helps his luxury brand clients expand their businesses within a market or extend to new markets.

Miguel also has experience helping clients to protect their critical intellectual property rights from attack and infringement from competitors and counterfeiters in the context of social media platforms. Whether he is counseling a client, litigating a dispute in court or arbitrating his client’s claim in an ADR forum, Miguel is constantly focused on how to maximize the value of his client’s brands.

In business and employment law disputes, Miguel recognizes that the resolution of a specific matter can often create a ripple effect across the enterprise. Accordingly, a successful representation turns on his unique ability to fully understand the client’s short- and long-term business goals in the context of the client’s specific industry. His clients also value his ability to listen to their needs, as well as his passion for advancing their objectives.

A proven leader with a wealth of experience, Miguel is the immediate past National President of the Hispanic National Bar Association (HNBA) and has been on its Board of Governors since 2004. He is also past President of the Hispanic Bar Association of New Jersey (HBA-NJ) and is the former Northern Vice Chair for the Judicial and Prosecutorial Committee (JPAC) of the New Jersey State Bar Association (NJSBA), which vets judicial and prosecutorial candidates on a statewide basis.

Practice Areas

- Class Action & Derivative Litigation
- Commercial & Business Litigation
- Employment
- Real Estate
- Trademark Prosecution and Enforcement

Education

- Rutgers University School of Law - Newark (J.D. , 1998) , Managing Editor, Rutgers Race and the Law Review
- Hofstra University (B.A. , 1994) , Dean’s List