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One-Size-Fits-None:

Practical Tips for National Employers on Developing and Enforcing a National Non-Compete Program

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I. Introduction to Restrictive Covenants and Trade Secrets

A. What is Protectable

1. Trade Secrets (see below)
2. Assets (customer lists and information; prices, costs, margins, mark-ups, "metrics"; marketing and strategic plans)
3. Relationships and Goodwill (customer; client; distributor; vendor; supplier; employee; consultant/contractor)

B. Classifying Information (IP vs. Trade Secrets vs. Confidential Info)

1. Intellectual Property
   a) To acquire protection:
      (1) Method, machine, or substance that meets statutory requirements, is new, and not an obvious update from something existing
      (2) Requires IP owner to fully disclose what might otherwise be treated as a trade secret
      (3) Consider length of time product will be on market
   b) Protection provided:
      (1) Highest-level protection
      (2) Protect rights regardless what other individuals may develop in the future
      (3) Recommended in industries with frequent technological breakthroughs
2. Trade Secrets
   a) To acquire protection:
      (1) Confidential business information which provides an enterprise a competitive edge and has value because of its secrecy
      (2) May concern inventions or information that is not viable for a patent
   b) Protection provided:
      (1) Medium-level protection
      (2) Does not prevent others from acquiring and using trade secrets; it prevents the acquisition by improper means
      (3) Recommended in industries with constantly changing products and where patents prohibitively expensive

3. Confidential Information

a) To acquire protection:

(1) Any information that is not generally known, as defined by contract and policies

(2) May concern business information that is not viable for trade secret protection

b) Protection provided:

(1) Low-level protection

(2) Recommended for general business information, strategies, data, procedures, and other information providing a competitive advantage

C. Preventative Measures

1. Policies

a) Confidentiality policies

b) Data security policies

c) Information storage rules, external device limits, password protection

d) Marking materials "confidential"

e) Office entry restrictions

f) Third party NDAs

2. Departing Employee Protocols

a) Exit interviews

b) Departing employee checklists

c) Departing employee reminders of obligations

d) Securing the return of company property and devices

e) Return of property policies

f) What is protected?

(1) Define confidential information for your business and in your industry

(2) Avoid catch-all phrases

(3) Consider using geographic scope

(4) Consider using temporal limit

(5) Include provision that information is confidential only if not otherwise made public

3. Agreements

a) What sorts of agreements to use?

(1) Offer letter

(2) Restrictive Covenant Agreement

(3) Employment Agreement

(4) Independent Contractor Agreement

(5) Commission Agreement

(6) Equity Agreement

(7) Arbitration Agreement

(8) Severance / Separation Agreement

b) Who should sign?

(1) "Team" approach

(a) "We all sign them"

(b) Protects all involved

(2) Specific individual approach

(a) Most employers don't need a non-compete agreement for every employee; for lower-level positions, non-disclosure agreements may be all that is needed

(b) Executives, consultants and rank-and-file employees privy to trade secrets and confidential / proprietary information, including customer relationships

c) Types of Restrictions

(1) Non-Competition

(a) Most effective protection

(b) Subject to most scrutiny

(2) Non-Solicitation of Clients

(a) Typically easier to enforce than non-compete

(b) Geared toward protecting relationships

(c) Should be tailored toward the clients or client prospects that the employee worked with, received

confidential information about, and/or actually solicited

(3) Non-Solicitation of Employees

(a) Greater possibility that courts could view as restraints on trade

(4) Confidentiality / Non-Disclosure

(a) Generally more enforceable

d) Consideration

(1) At-will Employment

(a) Most states: at-will employment at inception is sufficient

(b) Some states: continuing at-will employment is sufficient

(2) More than At-Will Employment

(a) Something more needed, like promotion, term employment/notice, bonus, stock options

(b) TN and IL – at-will employment not sufficient, unless employment continued for long period after

(3) Deferred Compensation Forfeiture Agreement

(a) Some employees are offered deferred compensation (either bonuses, or retirement funds) that are part of their typical benefits plan

(b) As part of those plans, some employers provide that benefits are forfeited and terminated if the employee begins competing

(c) Sometimes subject to lower court scrutiny if the losses are only the compensation

e) Reasonableness

(1) Covenant not to compete enforced only if:

(a) The restraint is no greater than is necessary to protect the employer in legitimate business interest

(b) The restraint is not unduly harsh and oppressive in curtailing employee's legitimate efforts to earn a living

(c) The restraint is reasonable from a public policy standpoint

(2) Duration

(a) Remember — the reason courts allow non-competes is to protect a company's goodwill and other business interests

(b) 1- to 2-year covenants generally okay, but anything longer appears more punitive than protective

(c) Some states have statutory presumptions regarding reasonableness, i.e. Florida

(3) Geography

(a) Limited to customers and/or areas that person is responsible for and/or exposed

(b) If salesperson who sells only in certain counties, a nationwide geographic restriction could be overbroad

(c) Conversely, if the employee is a nationwide marketing manager, a nationwide geographic restriction may be appropriate

(4) Scope of activity

(a) Restrictions generally should be limited to job duties the employee performed for the company

(b) Focus on what the employee actually did — prohibiting a person from working, in any capacity, at a competitor may be overbroad; national trend toward including scope of activity restrictions based on existing case law requiring narrowly tailored restrictions targeted at protecting the legitimate interest

(c) But for employees with significant access to trade secrets and confidential information, possibly prohibit from working in any capacity for a competitor

(d) "Janitor rule" – If a restriction is so broad it would bar an employee from even working as a janitor at another company, it's too broad

(i) *Med Medix Staffing Solutions, Inc. v. Dumrauf* (N.D. Ill. Apr. 17, 2018)

(a) Director employee in charge of sales and recruiting strategy

(b) Non-compete: "Employee shall not . . . directly or indirectly, own, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, operation, or control of, any business that either: (1) offers a product or services in actual competition with Medix; or (ii) which may be engaged directly or indirectly in the Business of Medix."

(c) "Business" = "the business of providing staffing and recruiting options for clients and candidates across the professional services, life sciences, healthcare and information technology industries."

(d) "Dumrauf argues that this would bar him from even working as a janitor at another company. While that example is a bit far-fetched, the Court sees no language in the Covenant that makes it an inaccurate statement of its prohibitions."

(ii) Avoiding the scope-of-activity defense

(a) Include scope language in non-compete

(b) Separate non-compete, non-solicit, and non-disclosure restrictions into separate provision

(c) Use various restrictions thoughtfully against different employee types

(d) Include court reformation language

f) Reformation of Unreasonable Restriction

(1) Reformation (reform to make reasonable)

(2) Blue Pencil (strike from existing contract)

(3) Red Pencil ("All or Nothing")

g) Key contract terms

(1) Choice-of-law and choice-of-forum

(a) Allows parties to select which state's law applies to contract interpretation and where litigation may/must occur

(i) Even more important to restrictive covenant litigation where state laws differ dramatically and can determine the outcome

(b) Generally recognized, less so in state courts, where courts may engage in complicated conflict-of-law analyses

(c) In federal courts, motions to transfer venue based on choice-of-forum clause generally successful

(2) Remedies clause

(a) Typically has employee agreeing that violation of covenant would cause irreparable injury to employer, and injunction shall issue if violation occurs

(b) Courts often ignore remedies clauses

(c) Recent Minnesota court enforced remedies clause, holding the court must enforce a provision agreed upon by the parties

(i) Gives parties the benefit of their bargain

(ii) Presumption that parties intend contract language to mean something

(3) Severability clause

(a) States that if any term or provision of contract is invalid, the rest of the contract is still enforced

(i) Clause will not be applied if it changes the fundamental nature of the contract

(ii) Helpful for contracts with multiple restrictive covenants

(a) Overly broad non-compete may be voided but non-solicit agreement remains valid

(4) Extension during breach / tolling

(a) Employers should get the full benefit of a restrictive covenant

(b) If employee violates covenant for a period, the covenant should be extended for the period of the violation

(c) Enforceability

(i) Some courts hold tolling makes a restriction of ambiguous duration and therefore unenforceable

(ii) Some courts will enforce:

(a) Reasonableness rules; courts consider:

(i) Employee's voluntary remedial actions

(ii) Employee's willingness to try to comply during remainder of initial period

(iii) Negative financial effects on employee from extension of restrictions

(iii) Some courts toll without contract provision

(5) Claw-back or forfeiture-on-competition

(a) Employee agrees to repay compensation already received, or to forego future payments (typically equity) upon competition

(i) Typically reserved for high-level executives

(b) Requirements

(i) Benefit must actually be an incentive for performance with the company or for abiding by certain requirements, and cannot be regular wages

(ii) Must be a true function of the employee's choice – voluntary resignation or termination for cause

(iii) Some courts will scrutinize for reasonableness

(6) Defend Trade Secret Act Notice

(a) DTSA provides immunity for disclosures made to government or in court filing

(i) Employers must notify employees, contractors, and consultants of immunities in any agreement that governs the use of a trade secret or other confidential information

(ii) Failure to comply with notice requirement precludes recovery of exemplary damages or attorneys' fees under DTSA

(7) Assignment

(a) Language authorizing the employer to assign the agreement and authorizing successors to enforce the agreement

(i) Without clause, risk in some states where restrictive covenants are considered personal-service agreements that assignment is not allowed without employee consent

(ii) Include express assignment clause and employee acknowledgement of consent to any assignment

(8) Reformation (beware!)

(a) States apply different rules regarding whether overly broad restrictions may be rewritten, and how, by courts

(b) "Right to reform" provision may serve as evidence that employer knew covenant was too broad when written

(9) Liquidated damages (beware!)

(a) Liquidated damages clause can negate request for injunctive relief

(i) TRO movant must prove there is no adequate remedy at law, meaning damages cannot be calculated

(ii) But liquidated damages that specify the amount of damages that one party will receive if the other party breaches the agreement

(10) Attorneys' Fees and Costs

(a) If employee breaches, he must pay employer's fees and costs in enforcing agreement, including in seeking and obtaining injunctive relief

(b) Cautions

(i) Rarely enforced, as a practical matter

(ii) Often a stumbling block to resolution

(iii) Beware one-directional attorneys' fees provision that may be made mutual by operation of statute (Cal. Civ. Code § 1717)

(11) Arbitration

(a) If contract provides for arbitration of disputes, include clear carve-out for injunctive relief

(b) Some courts may hold carve-out must be mutual, otherwise it is considered procedurally unconscionable

4. Mergers and Acquisitions

a) Due diligence is critical

b) Check whether target company has its key people under enforceable restrictive covenants

(1) Don't rely on just the HR files

(2) Analyze what restrictions are in various contracts

(3) Assess employee locations and enforceability under different states' laws

c) Confirm consideration (signed at inception of employment?)

(1) Can acquiring entity enforce old non-competes after the deal closes?

d) Analyze assignment clauses

(1) Review applicable state law on assignment based on stock versus asset purchase

(a) Mergers and stock purchases more likely to transfer the right to enforce

(b) Asset purchases are less clear

e) Should acquiring entity require new covenants?

(1) Build negotiation strategy or getting new or better agreements in place

(2) Be mindful of post-merger attrition problems

f) New agreement rollout

(1) Address consideration

(a) Depends on form of transaction (e.g., in statutory merger, employment may continue uninterrupted)

(b) For multi-state employers, one size definitely does not fit all, but choice-of-law can help

(2) Add carrots to the sticks (stay-bonuses, etc.)

II. Unique State-Specific Issues

A. Majority States

1. Most states permit non-compete restrictions, but frequently only in limited circumstances, and permit limited employee and customer non-solicit restrictions. Most states are sufficiently similar that a single template can work for all of them.

2. Regarding non-competes, most states generally may permit very narrowly tailored restrictions. Agreements in these states may or may not be blue penciled if deemed overly broad.

a) For Colorado, the non-compete and customer non-solicit provisions should be used only with executive or management employees, and employees who primarily serve as key members of the manager's or executive's staff in the implementation of management or executive functions.

3. Regarding employee non-solicits, most states generally permit restrictions of current employees.

a) For maximum enforcement, including specifically in Alabama, limit the employee non-solicit to restricting solicitation of employees who hold a position uniquely essential to the management, organization, or service of the business.

4. Regarding customer non-solicits, these states generally permit restrictions on actual solicitation (as opposed to mere contact) with actual customers (as opposed to prospects) the employee specifically serviced (as opposed to those the employee learned confidential information).

    a) For Colorado, a customer non-solicit should be used only with executive or management employees, and employees who primarily serve as key members of the manager's or executive's staff in the implementation of management or executive functions.

5. Regarding non-disclosure, most states generally permit standard confidential information non-disclosure limitations.

    a) But for South Carolina, Virginia, and Wisconsin, these states require that confidential information have a temporal limitation.

B. California

1. Limit restrictive covenants by statute

    a) CA: "[E]very contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void."

    b) Sale of business exception

        (1) Must include sale of good will

        (2) Sale of all of shareholder's stock

        (3) Dissolution of partnership

        (4) Restriction can only run in favor of the buyer, not the seller

        (5) Restrictions narrowly construed to apply only to existing customers/employees of business at time of sale

2. Case law has extended that general prohibition to both employee and customer non-solicits. In addition, the mere inclusion of unlawful restrictions in a California agreement can create potential liability to an employer.

3. California strategy

    a) Include choice-of-law, choice-of-forum provisions

        (1) Non-California choice-of-law, choice-of-forum provisions

            (a) California Labor Code § 925

                (i) Limits employer's ability to require employees to agree to litigate outside of California

(ii) Applies to employers entering new employment agreements with unrepresented employees who primarily work and reside in California

(b) Avoiding Labor Code § 925

(i) Challenge § 925 as unconstitutional

(ii) Employee does not reside and work in California

(iii) Include a savings clause and a time period to void

(iv) Condition forum-selection provision on receipt of optional compensation or benefits

(v) Use permissive rather than mandatory language: "This Agreement shall be governed by and construed in accordance with the internal laws of the State X without reference to principles of conflicts of laws and each of the parties hereto irrevocably consents to the jurisdiction and venue of the federal and state courts located in the State X."

b) Agreements acknowledging employees' obligations to keep proprietary and trade secret information confidential

(1) "After Employee's termination of employment, Employee shall not compete with Employer by using any confidential proprietary or trade secret information . . . ."

(a) Specify precise categories of information to keep confidential

(b) If possible, describe "competition"

(c) The more specificity the better

c) Prohibit the use or disclosure of confidential information for the purpose of soliciting employees or customers.

(1) Include within the non-disclosure section and prohibition on using or disclosing employer's confidential information to solicit the company's employees and customers.

(2) Regarding customers, limit restriction to existing or prospective customers that the employee serviced or solicited for the company, or about whom the employee

otherwise gained confidential information during his/her employment.

C. Maine

1. Permits non-competes only for employees earning at least 400% of the federal poverty level (approximately $103,000 for a four-person family)

D. Massachusetts

1. Permits non-compete agreements only against employees classified as exempt for wage-and-hour purposes at the time of termination
2. Must expressly state that the employee has the right to consult with counsel before signing
3. Must contain a "garden leave" clause or provide for "other mutually-agreed upon consideration."
    a) Statute defines "garden leave" as payment during the restricted period of 50% of the employee's highest recent salary.
    b) "Other mutually-agreed upon consideration" is not defined in the law. As a conservative approach, employers may wish to use garden leave until further and more complete guidance.
4. These statutory limitations do not apply to other restrictive covenants.
    a) Thus, employees may also sign separate agreement containing non-disclosure, employee non-solicit, and customer non-solicit restrictions.

E. North Dakota

1. "Every contract by which anyone is restrained from exercising a lawful profession, trade, or business of any kind is to that extent void."
    a) Exception: sale of business
2. Generally prohibits non-compete agreements, and similar case law (California) has extended that general prohibition to both employee and customer non-solicits.
3. Follow California strategies.

F. Oklahoma

1. "A person who makes an agreement with an employer, whether in writing or verbally, not to compete with the employer after the employment relationship has been terminated, shall be permitted to engage in the same business as that conducted by the former employer or in a similar business as that conducted by the former employer."

a) Exception: solicitation of established customers of former employer

G. Oregon

1. Permits non-competes only against a certain employees

   a) Classified as non-exempt in a white collar exemption (executive, administrative, or professional) for wage-and-hour purposes at the time of termination, plus a salary exceeding four times the median family income for a four-person family; or

   b) Employee who receives during the restriction period the greater of

      (1) 50% of the employee's gross base salary and commissions at termination, or

      (2) 50% of the median family income for a four-person family.

   c) To limit the necessity of dealing with garden leave, use non-competes in Oregon only with white-collar exempt and higher earning employees

2. Employee must be provided with a signed, written copy of the non-compete within 30 days after the termination of employment.

   a) Notably, this step cannot be achieved by providing a copy of the agreement at an exit interview, unless that interview occurs after the employment has already ended.

3. Additional consideration offered in exchange for current Oregon employees to sign a new restrictive covenant must consist of a promotion (not simply a signing bonus), which involves a genuine advancement in rank and responsibilities.

   a) The requirement to agree to the non-compete must be included as part of the promotion offer.

H. Texas

1. Additional consideration for current employees must be tied to the legitimate purpose of the covenant.

2. Texas requires employers to promise to provide training or confidential information in exchange for the employee's promises not to unfairly compete.

I. Washington

1. Permits non-competes only for employees earning over $100,000 annually.

2. Requires that for an involuntarily terminated employee, a non-compete must include "garden leave" paid in the amount of the employee's base salary for the restricted period.

3. To limit the necessity of dealing with garden leave, use non-competes in Washington only with voluntarily departing employees.

III. Litigating the Case

A. Discovery Issues

1. Litigation in this area is complex and fast moving

2. Critical to preserve potentially relevant evidence

3. Issue robust litigation holds

   a) Include text message guidance

   b) iPhone and Android auto-deletion settings

4. Electronic evidence

   a) Expedited investigation of employee emails, work computer, cell phone

   b) Third-party forensic expert usually necessary

5. Forensics findings (emails to private email accounts, suspicious deletions, external devices, cloud storage)

6. Alternative sources of evidence (salesforce activity, copy machine logs, workplace cameras, door entry and exit logs, log-in and log-off information, GPS data)

B. Litigation – Plaintiff Side

1. Litigation Strategies & Action Plan

   a) Send cease-and-desist to the new employer

      (1) Cheaper than lawsuit – if it works

      (2) Portrays your company as reasonable

      (3) But, opens you up to possible declaratory judgment action

   b) When to sue?

      (1) Move quickly and aggressively (when appropriate)

      (2) Fact investigation with client (i.e., don't just trust what the client tells you)

   c) Whom to sue?

      (1) Former employee

(2) New employer

(3) Individual officers and employees of new employer

d) Where to sue?

(1) Forum selection clause

(2) Closely related doctrine for personal jurisdiction

(3) Federal versus State court differences

(a) Striking a judge

(b) Jury verdict

(i) MN = 5/6 verdict after six hours of deliberations

(ii) Federal = Unanimous, unless by stipulation

2. Potential Claims

a) Breach of Contract

b) Tortious Interference

(1) Actions against new employer

(a) Former employer's claim for tortious interference with a contract or an alleged conspiracy to breach a contract or harm a business

(b) At least in Minnesota, damages can include the attorneys' fees spent enforcing the agreement against the former employee

c) Trade Secret Misappropriation

(1) The Uniform Trade Secrets Act (UTSA) (in all states except MA, NC & NY) and the Defend Trade Secrets Act define a trade secret as:

(a) Information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following:

(i) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use

(ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy

(2) Misappropriation

(a) Acquisition by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(b) Disclosure or use of a trade secret by a person who:

(i) used improper means to acquire knowledge of the trade secret; or

(ii) knew or had reason to know that his knowledge of the trade secret was:

(a) obtained from a person who used improper means to get it;

(b) acquired under circumstances that required a duty to maintain its secrecy;

(c) derived from a person who owed a duty to the person seeking to maintain its secrecy; or

(d) acquired by accident or mistake.

(3) Trade Secrets – why better than breach of contract?

(a) Injunctive relief – actual or threatened misappropriation

(b) Damages

(i) Actual loss caused by misappropriation

(ii) Unjust enrichment

(iii) Reasonable royalties

(c) If willful and malicious

(i) Punitive damages

(ii) Recovery of attorneys' fees

(d) DTSA – *ex parte* seizure

d) Common Law Claims

(1) Duty of Loyalty

(a) Generally, every employee owes a duty of loyalty to his/her employer during employment

(i) Includes a duty to not compete with his/her employer while employed

(b) Directors and officers should exercise good faith business judgment as to the best interest of the corporation

(c) Employees (even officers and directors) can generally make plans to resign and subsequently compete with their employer without breaching their duty of loyalty

(i) But how far can they go in "making plans"?

(ii) Employees cannot:

(a) use employer's trade secrets for own benefit

(b) misuse employer's confidential information

(c) usurp corporate opportunity

(d) tortiously interfere with a contract or business expectancy

(2) Aiding and Abetting / Conspiracy

(a) "Helping" Claims

(i) Aiding and abetting (intentionally and substantially assisting or encouraging another's conduct in breaching a duty to a third person)

(ii) Civil conspiracy (agreement between two or more people to commit an unlawful act)

(iii) Useful to impute wrongdoing of one defendant to other defendants

(3) Conversion & Replevin

(a) Common law actions to get your stuff back

(b) Generally applies to personal property, so useful to obtain return of company computer, flash drive, etc.

(4) Usurpation of corporate opportunity

(a) Officer or director exploits an advantage or offer she gained by virtue of her status as an insider of which the corporation itself could have taken advantage

(b) Less applicable for sales employees for which customer non-solicits are used

(5) Computer Fraud and Abuse Act

(a) Prohibits accessing a computer without authorization or in excess of authorization

(b) Mixed case law regarding employees accessing work computers to copy and steal information

(c) Previously useful to get into federal court, now less so with passage of Defend Trade Secrets Act

C. Litigation – Defense Side

1. Retaliation-based defense

a) SLAPP: refers to "Strategic Lawsuits Against Public Participation"

(1) statutes originally were intended to discourage lawsuits that were filed with the purpose of trying to chill constitutionally protected rights. They allow a defendant to quickly dismiss a complaint that is based on the defendant's rights like governmental participation or exercise of free speech. Currently, the majority of states have anti-SLAPP laws, though (as described below) state courts interpret the statutes in very different ways.

(2) when a defendant files an anti-SLAPP claim, all other activity in the case—other than litigation discovery related to the anti-SLAPP motion—ceases until the court reaches a decision on that motion

(3) statute shifts the responsibility to the plaintiff to show some factual merit to the case, typically "clear and specific" evidence for each essential element of the underlying claim

(4) court's decision on the anti-SLAPP motion is subject to immediate appeal

(5) if the anti-SLAPP motion to dismiss succeeds, the original plaintiff must pay the defendants' attorneys' fees

b) Avoiding anti-SLAPP motions

(1) Select a state law other than Texas

(2) increase diligence before filing suit

(3) A complaint in an anti-SLAPP state should reflect substantial evidence supporting each element of each legal claim

(4) The more that allegations rest on improper communications by or between defendants—e.g., sharing confidential information or trade secrets, soliciting customers or employees, or discussions among co-conspirator defendants—the stronger and more evidence-based the allegations should be

(5) vague or unsupported complaint allegations based merely "on information and belief" should be avoided at all costs

(6) employers should be prepared to invest in an early battle over motions and discovery and should consider those potential costs when deciding whether to file suit in the first place

c) Retaliation under human rights statutes

(1) Some human rights statutes include broad anti-retaliation provisions

(2) These provisions have been interpreted to prevent non-employment based retaliation

(3) An employee who asserted a discrimination claim either during or after employment may later claim that a non-compete claim is really retaliation for the prior discrimination claim

(4) To ward against such a claim, consider leaving out any request for punitive damages (if such damages can be initially pled), to avoid the appearance of a punitive motive; there is some helpful case law suggesting that filing suit alone cannot be retaliatory, but some additional punitive requests could suffice

2. Non-competes as an Unfair Labor Practice

a) Defendants' theory: unilaterally forcing employees to sign non-competes violates labor law

(1) NLRA Section 7: Guarantees employees "the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for

the purpose of collective bargaining or other mutual aid or protection."

(2) NLRA Section 8(a)(1): Unfair labor practice for an employer "to interfere with, restrain, or coerce employees in the exercise of the rights guaranteed in Section 7"of the NLRA.

b) *Minteq International*

(1) Minteq began "without bargaining or giving notice to the Union" to require all new employees to sign non-compete

(2) Union filed ULP charge for failure to bargain with union about giving the non-compete to new employees

(3) NLRB held Minteq violated the NLRA by imposing non-compete

(4) Court held non-compete was a mandatory subject of bargaining

(a) Non-compete "prohibits an employee from working for another company that might have any connection to Minteq's business both during his employment and for 18 months afterward, effectively imposing a cost in lost economic opportunities on employees"

(b) "Interference with Relationships" clause independently violated NLRA

(i) Employees could reasonably read this clause to prohibit them from asking customers to boycott Minteq's product in support of a labor dispute in violation of their Section 7 rights

(c) CBA's management rights provision was no cure

c) *Haynes Mechanical Systems*

(1) Advice Memorandum from NLRB's Division of Advice, Office of the General Counsel

(2) Haynes was non-unionized

(3) Required employees to sign non-disclosure, customer non-solicit, and employee non-solicit

(4) Employee left to join unionized competitor, and encouraged other Haynes employees to join him

(5) Haynes sued employee for breach

(a) "Organizing a conference for employees to meet with other employers, or asking employees to fill out applications for other employers, as part of protective or protest activity would reasonably be considered influencing or indirectly inducing employees to terminate their employment."

(b) Employee non-solicit unlawful because employees would reasonably construe provision to prohibit Section 7 activity

(c) Haynes' lawsuit itself violated Section 8(a)(1)

(i) "Non-solicitation provisions . . . significantly infringe on the ability of employees to discuss the potential advantages of union representation in order to gain higher wages and benefits either at their current employer or with another."

(6) Limits of decision

(a) Employees left non-union to join union employer

(b) Haynes could still "maintain lawful non-compete agreements that do not infringe on collective activity"

(c) Haynes could still "lawfully protected itself from the disclosure of proprietary information and the solicitation of its customers"

(d) Include NLRA non-interference clause

3. Micro-union organizing to prevent non-competes

a) Pop-Up Union—single-issue labor organizing campaign

(1) Two or more employees can trigger an election to certify an association to bargain on behalf of its members if at least 30 percent sign a membership petition, as long as the employees qualify as a "bargaining unit"

(2) Designed to engage with a company on just one issue, and then dissolve

(3) In 2016, an employee of EMC formed the Employee Association to Renegotiate Noncompetes ("EARN") to help employees eliminate their non-competes

(a) Employee implemented pop-up campaign during Dell-EMC merger

(b) When Dell-EMC merger closed, the company's president said it would be more "thoughtful and careful" in its future use of non-competes

4. Harnessing fee-shifting statutes to defend against claims

a) Different varieties of fee shifting statutes—those that award fees to a prevailing party, those that cut off fees if a non-compete has to be reformed, and those that make a contractual fee-shifting provision automatically mutual

(1) California: Cal. Civ. Code § 1717(a): "In any action on a contract, where the contract specifically provides that attorney's fees and costs, which are incurred to enforce that contract, shall be awarded either to one of the parties or to the prevailing party, then the party who is determined to be the party prevailing on the contract, whether he or she is the party specified in the contract or not, shall be entitled to reasonable attorney's fees in addition to other costs."

(2) Texas: Tex. Bus. & Comm. § 15.51: "[T]he court may not award the promise damages for a breach of the covenant before its reformation and the relief granted to the promise shall be limited to injunctive relief."

b) In Texas, California, Oregon and others, fee shifting statutes can be used to curtail an overly-aggressive litigant—threatening either the likelihood that

5. Hiring an employee with a restrictive covenant or who has trade secrets

a) Legal considerations

(1) Determine whether candidate has non-compete or non-solicit obligations

(2) Determine what state's law applies and evaluate enforceability under that law

(3) Determine where former employer can bring suit

(4) Consider declaratory judgment action

b) Factual considerations

(1) Create evidence that employee is complying, and new employer is not interfering, with the covenant

(a) Offer letter language

(b) Job description language

(c) Acknowledgment by employee that no information from prior employer has been taken

(d) Indemnification

(2) Minimize risk of tortious interference

(a) Avoid being the target of a TRO by providing enough assurance that former employer does not sue

(b) Shift burden to former employer to specify its trade secrets, and measures they recommend new employer takes

(c) Imply that former employer will have to expose its trade secrets in litigation

c) Establish justification defense

(1) Tortious interference requires proof that new employer acted without justification

(2) Steps to establish defense with admissible evidence

(a) Selection of counsel

(i) In-house counsel – need expertise; risks appearance of bias

(ii) Primary outside counsel – risks overlapping roles with litigation defense counsel

(iii) Other outside counsel – expertise, independence, freedom to be wrong

(b) Proving reasonable reliance

(i) Attorney factually equipped to offer advice

(a) Review agreement

(b) Possibly review offer letter, job description

(c) Possibly interview hiring manager, prospective supervisor

(ii) Act in good faith reliance on attorney advice

(c) Selection of the witness

(i) Company Representative – A company representative (business or HR) who will make a good witness is a good choice

(ii) In-House Counsel – Risks attorney/client privilege waiver issues, and most in-house counsel do not want to be witnesses

(iii) Primary Outside Counsel – No. The attorney defending you in court cannot also be a witness

(iv) Other Outside Counsel – Creates image of independent, dispassionate opinion, and wrong advice will not reflect as poorly on company

(d) Proving the advice occurred

(i) Evidence can be either oral or written

(ii) Proof of written exchange between attorney advisor and company best

(a) Billing records likely an exhibit

(b) Create limited billing records, without redactions, that do not otherwise waive privilege

(e) Proving the substance of the advice

(i) Advice can be either oral or written

(ii) Written generally better, but provides easier target for opposing counsel

(iii) Create clean, attractive exhibit for jury

6. Action Plan – Litigation Considerations

a) Legal analysis

(1) Determine enforceability, forum, law, other defenses

b) Factual analysis

(1) Create evidence of compliance

(2) Offer letter language

(3) Job description language

(4) Acknowledgment that no information from prior employer has been taken

(5) Indemnification

c) Whom to represent?

(1) Separate counsel for individuals

(2) Who pays?

(3) Duty for employer to provide defense?

(a) State laws

(b) Corporate by-laws

(4) Coordination among counsel

(a) Joint defense or common interest agreements

D. Settling and Resolving Cases

1. Almost all restrictive covenant / trade secrets cases settle
2. The goal of pre-litigation and litigation is to set your client up for favorable settlement
3. Settlement considerations

a) Direct talks / settlement conference / mediation

(1) Cases can be bet-the-company

(2) Often involve sales representatives and challenging personalities

(3) High emotion – suits between direct competitors

b) Pre- or post-discovery

(1) Case-by-case, depends heavily on plaintiff versus defendant perspective

(2) Expedited, informal discovery

(3) Targeted depositions / interviews

c) Pre- or post-TRO motion

(1) TRO ruling usually wins or loses the case…the ultimate leverage

(2) Significant investment

(a) Expedited document review and production, expedited depositions

(b) Live witness testimony

(3) Court order in the public domain

d) Effective settlement offers and demands

(1) Reasonable restrictions short of contract, with methods for verification

(2) Forensic investigation and remediation

(3) Sworn affidavits of compliance

(4) Consider court-ordered settlement agreement