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TEN QUESTIONS TO ASK YOUR CLIENT BEFORE SEEKING TO ENFORCE A RESTRICTIVE COVENANT OR CONFIDENTIALITY AGREEMENT

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By Joseph A. Kroeger and Matt P. Milner, Snell & Wilmer

The phone rings on a Wednesday afternoon. In a panic, your longtime client explains that a hotshot employee has unexpectedly fled to a competitor a few months before the launch of a top secret new product. The client is worried that the competitive advantage gained from years of research and development work could go up in smoke if the departing employee shares confidential information about the new product with the competitor in advance of its launch. The client has already heard murmurs of other employees being asked to follow their former boss over to the competitor.

Time is of the essence, and the decisions that you make in advising your client over the first 48 hours after getting this call could very well dictate the ultimate outcome of the dispute. This article is the first of a two-part series. In part one, we identify the 10 questions you'll want to ask your client within 48 hours of getting the call from an employer seeking to prevent a former employee from engaging in competitive activity. In part two, we'll identify the 10 questions you'll want to immediately answer if you're representing an employee seeking to avoid the enforcement of a restrictive covenant or confidentiality agreement.

1. Is the employee subject to any applicable contracts?

The starting point for any discussion of an employer's rights to restrict competitive activity by a former employee is to identify any applicable contracts that the former employee entered into with the employer, including restrictive covenants, confidentiality/trade secrets agreements or even arbitration agreements. These contracts will shape the course of the dispute. Restrictive covenants may be contained in traditional employment contracts, but they may also be contained in standalone agreements. In some cases, they may even be found in unexpected places, such as stock option agreements.

In the event that an employee has not entered into any applicable contracts, the employer may still have recourse through claims based on a breach of fiduciary duty, misappropriation of trade secrets, unfair competition, conversion or other common law claims, but it is generally preferable to have a written contract upon which to base some claims.

2. What kinds of competitive activities fall within the scope of the contracts?

Restrictive covenants and other contracts designed to protect a company against departing employees can take many forms, including restrictions on accepting employment with a competing business, soliciting employees or customers, or using proprietary information without the employer's permission. Don't simply rely on your client's description of the provisions. Carefully examine the language of the agreements to reach your own independent conclusions about what activity is restrained by the contracts.

3. Is the scope of the contract lawful?

For any contracts that may apply, explore whether the basic elements of an enforceable contract are present (e.g. consideration, mutual assent, etc.). In addition to these requirements, every state imposes some type of limit(s) on the permissible scope of a restrictive covenant. Although the precise contours of these limits differ from state to state, overly broad covenants implemented for primarily anti-competitive purposes are generally unenforceable. Be familiar with the governing statutes and case law for your state before undertaking this analysis. In most states, however, the analysis will take into consideration the geographic and temporal scope of the restriction, the range of activities constrained by the restriction and whether the scope of the restriction exceeds the employer's legitimate interest in protecting its proprietary information, goodwill or relationships. If the contracts at issue are even potentially overbroad or otherwise unenforceable, raise that concern to the client as early as possible and make sure that they understand the risks.

4. What is the employer's evidence of breach?

At the outset of a dispute with a departing employee, the employer often has access to the most important evidence before it files a lawsuit. Whenever an employer suspects that a departing employee may have violated a restrictive covenant, proprietary information agreement or other employment contracts, the employer should jump into action to quickly review the employee's recent email history, evidence of file transfers to an external storage device or cloud service, or any other usage anomalies. Although many companies have the in-house technical capabilities to conduct this analysis, third-party electronic discovery vendors can also assist and may have more experience conducting forensic discovery in a litigation context.

Additionally, review any information disclosed in exit interviews. Even if the employee did not disclose any information related to his or her new employer, you may be able to find evidence of material misrepresentations that can be used in the future to diminish the employee's credibility (and the credibility of the departing employee(s) can be a key factor in these cases). Similarly, investigate whether the departing employee signed an acknowledgement form indicating that they were not in possession of any proprietary information or were otherwise in compliance with their obligations to their employer.

We cannot overstate the importance of this step. Courts do not typically grant temporary restraining orders (TROs) and preliminary injunctions based on assumptions. They enter them based on evidence. You want to be in a position to tell a court, "On June 3, 2015 at 3:49 p.m., just one hour before he resigned his employment, Mr. Brown downloaded Acme's confidential computer source code onto an external thumb drive that was never returned to the company, in flagrant violation of his contractual and fiduciary duties to the company." If you quickly acquire objective evidence to support your claims (and you would be surprised at how often departing employees leave such evidence), you will have gone a long way towards putting your client in a position to achieve their goals.

5. What are the damages that the employer has suffered or is likely to suffer because of the alleged breach?

In many cases, establishing a facial breach of a contract is simple. Demonstrating damages resulting from that breach is more challenging. Some examples of concrete and calculable damages include the loss of a customer contract, replacement costs of hiring and training a new employee, conversion damages for the theft of property (including intellectual property), liquidated damages and attorney's fees. Other damages, such as loss of good will or harm to a customer relationship, may be harder to quantify. Determining whether the employer will be able to establish concrete damages will shape the litigation strategy and budget, so getting your arms around a potential damages calculation as soon as possible is crucial.

6. What are the employer's goals?

The decision to pursue litigation should never be made lightly. Even in cases where a technical breach can easily be established, the defendant/former employee may be able to establish affirmative defenses or counterclaims that can turn the tables. A company also has to consider any publicity that may result from initiating litigation and how the company might be portrayed. In the worst case scenario, efforts to enforce a restrictive covenant or employment contract could result in a ruling that invalidates not only the contract(s) against the former employee, but any other identical contracts entered into by other employees.

Given these risks, employers should carefully consider their goals and reasonable expectations before firing the opening volley. Is the primary goal to prevent disclosure of valuable, proprietary information? To protect its hard-earned customer or employee base from poaching efforts? To send a deterrent message to other employees and their prospective employers? Or is it simply to punish an employee who left on bad terms? Trusted counsel can ensure that the means of seeking enforcement match the motives of the employer. If you don't take the time to probe the client's goals at the outset, you won't be able to plot an efficient and effective course to achieve a favorable outcome.

7. Does the employer want to send a demand letter prior to filing a lawsuit?

Drafting and researching an application for a TRO, complaint and any other supporting documents can be expensive and time-consuming. Furthermore, filing a lawsuit escalates the stakes of the dispute and fosters animosity. Where the stakes are already high, the harm caused by the violation is significant and time-sensitive, and the client's budget can handle the costs, filing the lawsuit as soon as possible creates an opportunity for speedy court intervention and allows an element of surprise that can be incredibly valuable in a TRO hearing. In many cases, however, a pre-suit demand letter provides an opportunity for a cost-effective resolution. Although a pre-suit demand letter can tip the employer's hand to the other side, most lawsuits are not won through the element of surprise. Counsel your client on the advantages and drawbacks to sending a pre-suit demand letter, even if their initial impulse is to race to the courthouse.

8. Does the employer have claims against the former employee's new employer or other third parties?

In addition to bringing claims against the breaching former employee, an employer can consider bringing claims against the new employer that hired the breaching party. For instance, if the new employer had knowledge of an employee's non-compete obligations, but nonetheless chose to hire them to engage in directly competitive activity, then the new employer could be liable for tortious interference with contract. Bringing claims against the new employer generates an opportunity to reach into deeper pockets in the event that substantial economic damages could be assessed. The downside, however, is the risk that the new employer will be more willing to fund the defense of the employee once it has been brought into the lawsuit.

9. What is the employer's strongest argument for injunctive relief?

If you decide to proceed with a lawsuit and move for temporary and/or preliminary injunctive relief, hone in on the discrete, provable violations of law. Although the complaint should include the full gamut of claims, the request for temporary and/or preliminary injunctive relief should be more focused. Pick your cleanest and most persuasive arguments based on the available evidence. For example, if your pre-suit discovery has revealed evidence of electronic removal of proprietary documents, then it will be straightforward to marshal persuasive evidence of a breach of a proprietary information agreement. In other cases, focusing on breach of a fiduciary duty (such as the duty of loyalty) may be a simpler path. If you employ an everything but the kitchen sink approach in a TRO application, you risk, among other things, presenting the other side with an opportunity to attack weaker arguments and claims and potentially impact your credibility with the court.

10. Do you want to pursue an *ex parte* temporary restraining order?

If the exigency of the employer's need for injunctive relief is so urgent that a delay of a few days might result in irreparable harm, then an employer may determine that they need relief before notice and an opportunity for a hearing is provided to the defendant. Most states have specific procedural rules governing when and how an *ex parte* TRO may be entered (FRCP 65(b)(1) governs in federal cases). Courts are reluctant to provide *ex parte* relief, except in the most extreme circumstances, and typically see through an effort to seek *ex parte* relief solely as a tactical advantage and to prevent the other side from having an opportunity to respond. Further, if the court denies the request or declines to rule until the defendant is given notice (which does happen), then the decision to seek *ex parte* relief may in fact delay the entry of an injunction.

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About the Authors:

Joseph A. Kroeger
520.882.1254
jkroeger@swlaw.com

Joe Kroeger is a partner at Snell & Wilmer. His practice is concentrated in labor and employment, focusing heavily on the prevention side of employment claims and positioning problem employment situations for the best possible defense. He represents employers in a variety of areas, including employment discrimination and harassment, wrongful discharge, breach of contract, misappropriation of trade secrets, non-competition/non-solicitation matters, social media, alternative dispute resolution and arbitration agreements, and other related areas.

Matt P. Milner
520.882.1279
mmilner@swlaw.com

Matt Milner is an associate at Snell & Wilmer. His practice is concentrated in labor and employment law and commercial litigation. His litigation experience includes federal and state court practice in a variety of employment-related issues. He has assisted his clients in defending against discrimination, harassment and retaliation claims under Title VII, Section 1981, the Arizona Employment Protection Act, the Arizona Civil Rights Act and other state laws. In addition, he has worked with employers and their employees to defend against efforts to enforce non-competition and confidentiality agreements.