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together

Practical Considerations When Hiring Employees With Restrictive Covenants

Fighting and Defeating Restrictive Covenants

ICLE Seminar

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Visentin/IBM and *Barnett/Aspect Software*: A Case Study in Unpredictability

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IBM v. Visentin, 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011)

- 26-year Executive for IBM jumps ship to join Hewlett-Packard, a direct competitor.

  – Office of Chairman

  – Global VP of End-User Services

  – GM of Integrated Technology Services

  – Member of Strategic Leadership Group

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IBM v. Visentin (Cont'd)

- Efforts found sufficient to avoid any inevitable disclosure of previous employer's trade secrets.

  – No sharing of IBM confidential information

  – Specifically structuring new position to avoid any overlap with areas he oversaw at IBM

  – Employee provided HP a list of customers for whom he could not work because of his responsibility for those customers at IBM

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IBM v. Visentin (Cont'd)

- The Court also found that employee's exposure to IBM's trade secrets was minimal

  – General managerial expertise v. technical expert

  – Evidence that would not need to apply any confidential information learned at IBM in his new employment at HP

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IBM v. Visentin (Cont'd)

- "White hat" conduct reflected good faith and evidenced that disclosure was not inevitable

  - For example: employee's decisions not to take any IBM documents with him to HP and to provide HP with a list of customers for whom he could not work because of his responsibility for those customers at IBM

  - Employee's good behavior as a departing employee, in effect, gave the Court a basis from which it reasonably concluded that he would not "eventually be 'motivated' to break the law"

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Aspect Software, Inc. v. Barnett,
787 F. Supp. 2d 118 (D. Mass. 2011)

- Technical Expert in Contact Center space; led business

- Aspect Software and Avaya = Fierce Competitors

- Enforced non-compete even though the new employer made "scrupulous efforts" to protect the former employer's trade secrets after the hire

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Aspect Software, Inc. v. Barnett, (Cont'd)

- Steps taken by employee:

  – Turned off his Aspect-issued Blackberry immediately after tendering his resignation

  – Left his laptop in his office

  – Boxed all Aspect property in his home and made arrangement for an Aspect representative to retrieve the boxes

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Aspect Software, Inc. v. Barnett, (Cont'd)

- Steps taken by new employer:

    – Included language in its offer that specifically forbade him from using any Aspect trade secrets

    – Separately incorporated by reference employee's agreement with Aspect

    – Avaya Senior VP sent employee an email with detailed ground rules

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Aspect Software, Inc. v. Barnett, (Cont'd)

- Injunction Granted barring employment for one year

  – Preventative steps would only reduce the harm flowing from the breach of the agreement and not the breach itself

  – Steps lacked the force of law and were merely contractual and voluntary in nature

  – Parties were "intense competitors" in the field in which the employee had "encyclopedic knowledge" of trade secrets

  – Whether or not employee had actually disclosed any trade secrets, the Court found that Aspect had established that it was at the very least "reasonably likely" that he would do so

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Takeaways from
Visentin and *Aspect Software*?

- Similar safeguards – different results

- "White hat" may win the day so "run the traps"

- Possible Distinction:

  - Visentin = Purely Operational/Managerial

  - Barnett = Technical expert hired as much for technical expertise as managerial experience.

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Considerations When Hiring Employees with Restrictive Covenants

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1. Is there a restrictive covenant?

- Look everywhere? Places to look include:
  - Offer Letter

  - Employment Agreement

  - Stand-alone non-compete

  - Equity Grant

  - Separation Agreement

  - Handbook

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1. Is there a restrictive covenant? (cont.)

- Was the prospect aware of the existence of the restrictive covenant?

  – Signature vs. negative consent?

  – On-line acceptance?

  – Where signed?

- Was the restrictive covenant prominently displayed or buried?

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2. Study the Agreement

- Does the proposed employment violate the terms of the restrictive covenant?

  – Scope of covenants

  – Time and geographic restrictions

  – Customer restrictions

  – Nature of proposed employment

    - *HP structured Vizentin's job*
    - *Whereas, Barnett was more directly in competition*

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2. Study the Agreement (Cont'd)

What provisions are you examining?

- <u>Noncompete</u>: Agreement not to engage in certain competitive activities

- <u>Nonsolicitation</u>: Agreement not solicit (1) employees and/or (2) customers/prospects

  – Study language carefully: Limited to solicitation or does it preclude providing any service to customers/prospects?

- <u>No Hire</u>: Agreement not to hire employees of the company

  – Consider antitrust issues

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3. Assessing Enforceability of the Agreement or Provision

What law applies?

- Is there a choice-of-law provision?
- Is the choice-of-law provision enforceable?
- What factors do you need to examine?

    – Law of the forum state: is there a forum selection clause?

    – Is there personal jurisdiction in that state?

    – Is there sufficient nexus to choice-of-law state?

- Is there a venue clause?

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3. Assessing Enforceability of the Agreement or Provision (Cont'd)

In assessing enforceability, you may have to examine the laws of multiple states.

For example: A California employer wants to hire a Pennsylvania-based employee of a New Jersey employer where the employee has a noncompete with New Jersey venue and choice-of-law provisions.

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4. Scope Issues – Reformation and Severance

- Is the agreement overly broad with respect to time or geographic scope?

  – Does the agreement bar all work for a competitor or just positions where a protectable interest is at risk?

- What type of reformation, if any, is permitted?

  – New Jersey courts may modify or limit restrictive covenants in duration (typically one year), geographical area, and scope of activity.

  – Other states will not modify, but may sever offending term.

  – Other states will invalidate.

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5. Consideration

- Is there adequate consideration under applicable law?

  - Is at-will employment sufficient?

  - What about continued employment?

  - Is a mere offer of continued employment – with no certainty – enough?

  - Does the agreement provide additional consideration?

  - Did the employee actually receive the additional consideration?

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5. Consideration (Cont'd)

- The signing of a non-compete at the <u>inception of employment</u> is sufficient consideration.

- New Jersey courts generally have held that <u>continued employment</u> is sufficient consideration for an enforceable non-compete after the employment relationship has begun.

  - <u>However</u>: Unpublished decisions have require actual continued employment – not just promise.

  - <u>However</u>: Other states (e.g., PA) require additional consideration.

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6. Nonsolicitation Agreements

- Doing business with vs. solicitation?

- All clients, or just those with which the employee conducted business?

- Did the employee bring clients to the competitor employer from a previous job?

  - Does the former employer own or rent the relationships?

  - *Coskey's* does not necessarily mean that a client brought with an employee to an employer is owned by the migratory employee.

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7. Other Considerations

- Arbitration?

  – Beware of special FINRA rules

- Was the employee terminated or did he or she quit?

- If terminated, was there just cause for the termination?

- What is the history of litigating agreements by the competitor's employer?

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8. Practical Steps to Take in the Hiring Process

- Obtain all noncompete and trade secret agreements
- Advise in interview process not to disclose confidential information
- Advise your employees not to ask for confidential information
- Include express provision in offer/agreement requiring protection of prior employer's trade secrets (i.e., commitment not to use/disclose)
- Review inevitable disclosure issues
- Compare new position vs. prior position

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8. Practical Steps to Take in the Hiring Process (Cont'd)

- Develop and communicate a written protocol to identify trade secret risks and to address such risks during employment

- Avoid new confidential information shortly prior to departure

- Develop talking points for employee to use in communicating resignation, ensure complete honesty

    – Immediate departure vs. Offer to stay?

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8. Practical Steps to Take in the Hiring Process (Cont'd)

- Educate prospective employee on importance of forensics and need to act honorably upon departure

  - Confirm that employee has not brought any property belonging to former employer (e.g., laptop, iPhone, Blackberry, rolodex, papers, home computers, flash drives)

- Consider whether to directly confer with competitor re: protection of confidential information

  - Be prepared to keep employee out of same/similar business line for a period of time

- Develop talking points for employee re: adhering to restrictive covenants

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9. Some Talking Points to Consider

- No using or dislosing of confidential information.

- You may only use publicly accessible information relating to [former company] and your general industry knowledge, which may have been informed by your experiences at [former company].

- Confidential information includes any <u>non-public</u> information disclosed to you by [former company] or learned by you as a result of your employment at [former company].

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9. Some Talking Points to Consider (Cont'd)

- If not sure, err on the side of caution and refrain from performing the assignment.

- If not sure, notify your manager, who may arrange to have the work completed by someone else.

- If not sure, contact the Legal Department for guidance.

- Beware of the traps

    – Social media

        - *Who owns your contacts?*

        - *Watch for the double-agent supposedly looking to follow*

- Warning about discovery: If you write or type it, it's fair game.

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