
Restrictive Covenants in Employment: Crafting Enforceable Noncompete and Non-Solicitation Agreements

WEDNESDAY, OCTOBER 14, 2015

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Mark A. Saloman, Partner, **FordHarrison**, Berkeley Heights, N.J.

Paul E. Starkman, Partner, **Pedersen & Houpt**, Chicago

Jennifer M. Trulock, Partner, **Baker Botts**, Dallas

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Sample Non-Compete/Non-Solicit/Non-Disclosure Clauses

By

Paul E. Starkman

For

**Stafford webinar entitled "Restrictive Covenants in Employment:
Crafting Enforceable Noncompete and Non-Solicitation Agreements"**

October, 14, 2015

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Consideration

WHEREAS the Firm and the Executive wish to amend Section 3(e)(v) of the Retention Agreement to reflect that the Firm may grant a portion of the Executive's ordinary annual incentive compensation in the form of deferred cash awards that will be paid in installments, subject to continued employment and other vesting conditions (each such cash award, a "Deferred Cash Award"), and that such Deferred Cash Awards shall be treated in the same manner as restricted stock units in the event of the Executive's retirement in accordance with Section 3(e)(v) of the Retention Agreement.

Executive hereby acknowledges and recognizes that the Company has entrusted and will continue to entrust Executive with Confidential Information in his roles with the Company, and that in connection with the performance of such roles and the provision of services to the Company, Executive will develop goodwill on behalf of and that will inure to the benefit of the Company. Executive further acknowledges that, if Executive were to work for or otherwise provide services to a competitor of the Company or to initiate or participate in a new venture that is competitive with the Company, Executive would be likely to be in a position to use that Confidential Information or goodwill on behalf of or for the benefit of such competitor of the Company. Executive further acknowledges the highly competitive nature of the business of the Company. The necessity of protection against competitive activities on the part of Executive and the nature and scope of the protection afforded by the provisions set forth in this Section 2 have been carefully reviewed and considered by the parties to this Agreement. The parties to this Agreement, including, but not limited to, Executive, expressly acknowledge and agree that the duration, scope and geographic areas applicable to the covenants contained in this Section 2 are fair, reasonable and necessary, that adequate consideration has been received by Executive for undertaking to be bound by such covenants and that such covenants are not expected to interfere in any material respect with the ability of Executive to earn a living.

Scope of Restriction

(a) During Employment. Except as described in paragraph (c) below, during Employee's employment hereunder, Employee shall not engage, directly or indirectly, as an employee, officer, director, partner, manager, consultant, agent, owner (other than a minority shareholder or other equity interest of not more than 1% of a company whose equity interests are publicly traded on a nationally recognized stock exchange or over-the-counter) or in any other capacity, in any competition with the Company or any of its subsidiaries.

(b) Subsequent to Employment. Except as described in paragraph (c) below, for a two year period following the termination of Employee's employment for any reason or without reason, Employee shall not in any capacity (whether in the capacity as an employee, officer, director, partner, manager, consultant, agent or owner (other than a minority shareholder or other equity interest of not more than 1% of a company whose equity interests are publicly traded on a nationally recognized stock exchange or over-the-counter), directly or indirectly advise, manage, render or perform services to or for any person or entity which is engaged in a business competitive to that of the Company or any of its subsidiaries (including without limitation those businesses listed in Appendix A to the form of stock option agreement attached hereto as Exhibit A) within any geographical location wherein the Company or any of its subsidiaries produces, sells or markets its goods and services at the time of such termination or within a one-year period prior to such termination.

I will not, during the period of my employment by the Company and in the event that my employment with the Company is terminated for any reason whatsoever and whether such termination be voluntary or involuntary, for a period of three years (3) years following such termination, (i) directly or indirectly engage in any competitive business (defined as a business that designs, develops, manufactures, markets or sells a product, product line or service that competes with any product, product line or service of the Company as they presently exist or as may be in existence or development on the date of termination of my employment with the Company whether such engagement shall be as an employer, officer, director, owner, employee, partner or other participant, (ii) assist others in engaging in any competitive business in the manner described in the foregoing clause (i).

I understand that this Section 9 is not meant to prevent me from earning a living or fostering my career. It does intend, however, to prevent any competitive business from gaining any unfair advantage from my knowledge of Proprietary Information. I understand that by making my new employer aware of the provisions of this Section 9, they can take such action as to avoid my breaching the provisions hereof and to indemnify me in the event of a breach.

2.1 Definition of Competitive Business. You understand and acknowledge that Alloy's and its Affiliates' business interests are world-wide because Alloy's and its Affiliates' products and/or services are sold in countries around the world and Alloy's and its Affiliates' competitors similarly operate from and market their products and/or services in many locations around the world. As used in this Agreement (i) the term "**Company Business**" means the nontraditional media and marketing businesses primarily targeting the youth market engaged in by Alloy or any of its Affiliates at any time anywhere in the world during your employment by Alloy and (ii) the term "**Competitive Business**" means any Company Business engaged in by any third party anywhere in the world.

Duration/Tolling

I will not, during the period of my employment by the Company and in the event that my employment with the Company is terminated for any reason whatsoever and whether such

termination be voluntary or involuntary, for a period of three years (3) years following such termination [complete].

Extendor Clause: In the event of the Employee's breach of any provision contained in Section 8 of this Agreement, the Restricted Period will be extended by the amount of time that the Employee is in breach of such provision.

(b) "Restricted Period" means:

(i) In the event of termination for Cause, resignation by Executive without Good Reason, or termination for Disability pursuant to Section 2.1, 2.2 or 2.3(a), the restrictions set forth in Section 3.1(a) will be in effect until the later of (A) three years following Executive's termination of employment or (B) five years following Executive's termination of Employment if the Company elects to pay Executive's Salary in accordance with its regular payroll practices for the fourth and fifth years following Executive's termination of employment, or

(ii) In the event of termination without Cause or resignation by Executive for Good Reason, for a period equal to the shorter of (A) five years following Executive's termination of employment or (B) the period during which the Company continues to pay Executive's Salary in accordance with its regular payroll practices.

NO-HIRE

No-hire covenant in model employment contract:

The Employee agrees that during the Restricted Period he will not solicit, hire, or induce a Restricted Employee to leave his or her employment with the Company to join a person or E entity that provides similar products or services as the Company offers to others at the time of the Employee's departure

Define the terms "Restricted Period" as the duration of employment plus a reasonable post-termination period (say, a year). Define "Restricted Employee" as someone with management, sales, or product development responsibility (or as the client otherwise may choose in the proper case).

Additional Restrictions

No Notice of Subsequent Employment

During the Restricted Period, (i) the Employee will not notify any of the Restricted Clients of any subsequent employer or principal for whom Employee is employed or engaged, and (ii) in the event that any of the Restricted Clients requests that the Employee provide Services, the Employee will refuse to do so.

Notice to Employer of Employee's Prior Clients

Notwithstanding the foregoing, nothing in this Agreement prohibits the Employee from becoming employed or engaged in the Services industry following the Employment Termination Date, provided that the Employee complies with the terms of this Agreement, and should the Employee secure employment or engagement in the Services industry following the Employment Termination Date, this Agreement does not

preclude the Employee from soliciting any of Instant's Clients or Potential Clients for whom Employee provided Services prior to the time she/he first became employed by Employert (the "Excluded Clients"), provided that a written list of the Excluded Clients is provided by the Employee to Instant within ten days following the Effective Date, is appended to this Agreement as Schedule B, and is approved by the CEO of Employer, as evidenced by her initials on Schedule B.

Notice to Employer of Employee's Subsequent Employment and Consent for Employer to Inform Subsequent Employer of Restrictive Covenants

During the Restricted Period, the Employee will notify Employer in writing of any subsequent occupation of the Employee, whether as owner, employee, officer, director, agent, consultant, independent contractor, or the like, and his/her duties and responsibilities in that position. Further, during said period, the Employee will inform each new employer, prior to accepting employment, of the existence of the terms of Sections 7 and 8 of this Agreement and their terms. The Employee acknowledges that during said period, Employert will have the right to contact, independently, any potential or actual future employer or principal of the Employee to notify it of the Employee's obligations under Sections 7 and 8 of this Agreement and provide such employer or principal with a copy of such provisions. Employer also will be entitled, at its election, to notify any such actual or potential employer or Principal of Employer's understanding of the requirements of Sections 7 and 8 of this Agreement and what steps, if any, Employer intends to take to ensure compliance with or enforcement of such provisions. Failure of Employer to avail itself of the benefits of this subparagraph will not in any way effect its right to enforce any provision of this Agreement.

Blue/Red Penciling

In the event that any of the provisions of this Section 3.1 are deemed by a court of law to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions will be reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable laws.

If any provision of this Section 2, or the application thereof to any Person or circumstance, is for any reason or to any extent, invalid or unenforceable, a court of competent jurisdiction shall revise this Section 2 to the minimum extent required so that it is no longer invalid or unenforceable and shall enforce the revised provision to the greatest extent permitted by Law. The provisions of this Section 2(e) shall apply notwithstanding any different rule of severability set forth in Section 3 of the Agreement.

Severability

If any term or provision of this Agreement is held or deemed to be invalid or unenforceable, in whole or in part, by a court of competent jurisdiction, such term or provision shall be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement. In the event that any covenant contained in this Agreement shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too long a period of time or over too large a geographical area or by reason of its being too extensive in any other respect, it shall be interpreted to extend only

over the maximum period of time for which it may be enforceable and/or over the maximum geographical area as to which it may be enforceable and/or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action.

Choice of Forum/Law

THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (UNITED STATES OF AMERICA), WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS WHICH COULD CAUSE THE APPLICATION OF THE LAW OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

The provisions of this Agreement will be construed and interpreted under the laws of the State of Delaware without giving effect to the principles of conflict of laws thereof. To the extent not otherwise provided for by Section 4.4, the Company and Executive consent to the exclusive jurisdiction of all state and federal courts located in New Castle in the State of Delaware, for the purpose of any suit, action or other proceeding arising out of, or in connection with this Agreement.

Assignment

Executive may not delegate the performance of any of his obligations or duties hereunder, or assign any rights hereunder, without the prior written consent of the Company and Highland. Any such purported delegation or assignment in the absence of such written consent shall be null and void with not force or effect. Subject to the limitations imposed by this Section, this Agreement shall be binding on and inure to the benefit of the parties hereto and their respective successors, permitted assigns, heirs and legal representatives.

Injunction Clauses

The following are examples of injunctive clauses in which Employee acknowledges that breach of restrictive covenant will result in irreparable harm for which the Employer will have no adequate remedy at law, enforcement of the restrictions will not preclude Employee from earning a livelihood or preclude him/her from supporting his/her family, and that Employer shall be entitled to immediate injunctive relief without the need to post a bond or other security:

Example: It is agreed that the rights and benefits of each of the parties pursuant to this Agreement are unique and that no adequate remedy exists at law if any of the parties shall fail to perform or breaches any of its obligations hereunder, that damages alone would not be an adequate remedy for the breach of any of the provisions of this agreement because it would be difficult to determine the amount of damages resulting therefrom, and that such breach would cause irreparable injury to the non-breaching parties. Therefore, without prejudice to any other rights and remedies it may have, the non-breaching party shall be entitled to injunctive relief to prevent or restrain any actual or threatened breach of this Agreement without the need to post a bond or security.

Example: "Each party acknowledges that monetary damages would be an inadequate remedy for breach of this confidential information clause, and that the breach of such clause will result in immeasurable and irreparable harm to the other party. Therefore, in addition to any other

remedy to which it may be entitled by reason of the other party's breach of this clause, the moving party shall be entitled to seek temporary, preliminary and permanent injunction."

Example: The Employee further acknowledges that the restrictions contained in this Agreement are a reasonable and necessary protection of the legitimate interests of Instant and that any violation of these restrictions would cause substantial irreparable injury to Employer. The Employee further acknowledges that she/he will be in a position to earn a livelihood without violating the restrictions in this Agreement. The Employee further acknowledges that Employer would not have entered into this Agreement with the Employee without receiving the consideration offered by the Employee in binding himself/herself to the restrictions of Sections 7 and 8 of this Agreement.

Remedies

Example: Equitable Relief and Remedies. Employee acknowledges that any breach of this Agreement will cause substantial and irreparable harm to the Company for which money damages would be an inadequate remedy. Accordingly, notwithstanding the provisions of Article V below, the Company shall in any such event be entitled to seek injunctive and other forms of equitable relief to prevent such breach and the prevailing party shall be entitled to recover from the other, the prevailing party's costs (including, without limitation, reasonable attorneys' fees) incurred in connection with enforcing this Agreement, in addition to any other rights or remedies available at law, in equity, by statute or pursuant to Article V below.

Example: The Director acknowledges and agrees that upon any breach by the Director of his obligations under Sections 9 or 10 [confidential information & non-competition] hereof, the Company will have no adequate remedy at law, and accordingly will be entitled to specific performance and other appropriate injunctive and equitable relief.

Example: In the event that a breach of this Paragraph occurs, you will pay, as liquidated damages and not a penalty, \$50,000.00 per occurrence (the "Liquidated Damages") to the Company. Each of the parties to this Agreement acknowledges and agrees that the amount of damages which the Company will incur in the event of a breach of this Paragraph is extremely difficult and impracticable to ascertain, and further agrees that under the circumstances existing as of the date of this Agreement, the Liquidated Damages represent a reasonable estimate of the damages that the Company would sustain in the event of such a breach.

Example: In the event of any suit which may be brought by Employer for the Employee's breach or threatened breach of this Agreement, including but not limited to a breach of the covenants contained in Sections 7 and/or 8 hereof, any such breach or threatened breach will entitle Instant to any and all of the following remedies:

- (i) an order in any such suit enjoining the Employee from breaching said provisions, which order may be entered at any stage of such litigation without the requirement to post bond, and any application for such injunction will be without prejudice to any other right of action which may accrue to Instant by reason of the Employee's breach or threatened breach of this Agreement; and
- (ii) an order in any such suit providing for the Employee's forfeiture of any and all Compensation that may be due to the Employee during the period that the Employee is in breach; and

(iii) an order in any such suit providing for such other damages as may be determined by an accounting for lost profits or diverted business.

Nothing contained in this Section [on Remedies] will constitute or be construed as a waiver by Employer, nor will Employer be precluded from availing itself of any other remedy available to it in law or equity.

The remedies contained in this Section [on Remedies] are cumulative and not exclusive.

Remedies are Cumulative Provisions

All rights and remedies provided pursuant to this Agreement or by law will be cumulative, and no such right or remedy will be exclusive of any other. A party may pursue any one or more rights or remedies hereunder or may seek damages or specific performance in the event of another party's breach hereunder or may pursue any other remedy by law or equity, whether or not stated in this Agreement.

Employee Claims No Defense to Enforcement of Restrictive Covenants Clause

d. The covenants on the part of the Employee contained in this Section 7 will be construed as an agreement independent of any other provision in this Agreement. The existence of any claim or cause of action of the Employee against Instant, whether predicated on this Agreement or otherwise, will not constitute a defense to the enforcement of this Section 7 by Employer.

ADR/Arbitration

Including Restrictive Covenants:

The Company and Employee agree that any controversy or claim arising out of or related to this Agreement or Employee's employment with or termination by the Company that is not resolved by the parties shall be settled by arbitration administered by the American Arbitration Association under its National Rules for the Resolution of Employment Disputes. Said arbitration shall be conducted in Lexington, Kentucky. The parties further agree that the arbitrator may resolve issues of contract interpretation as well as law and award damages, if any, to the extent provided by the Agreement or applicable law. The parties agree that the costs of the arbitrator's services shall be borne by the Company. The parties further agree that the arbitrator's decision will be final and binding and enforceable in any court of competent jurisdiction. In addition to the A.A.A.'s Arbitration Rules and unless otherwise agreed to by the parties, the following rules shall apply:

Excluding Restrictive Covenants:

(a) Any controversy, dispute or claim arising out of or in connection with this Agreement or breach hereof will be settled by final and binding arbitration to be conducted in Salt Lake County, Utah unless otherwise agreed to in writing by Executive and the Company pursuant to the Employment Arbitration and Mediation Procedures of the American Arbitration Association then in effect. The decision or award in any such arbitration will be final and binding upon the parties and judgment upon such decision or award may be entered in any court of competent jurisdiction or application may be made to any such court for judicial acceptance of such decision or award and an order of enforcement. Any disagreement as to whether a particular

dispute is arbitrable under this Agreement will itself be subject to arbitration in accordance with the procedures set forth herein.

(b) The Company and Executive agree that each will bear its own costs and attorneys' fees in any arbitration hereunder.

(c) Notwithstanding the foregoing, no claim or controversy for injunctive or equitable relief contemplated or allowed under applicable law pursuant to Article III of this Agreement will be subject to arbitration.

(a) Each and every one of the Parties agree that any controversy or claim arising out of or relating to this Agreement or Executive's employment with the Company will first be submitted to non-binding mediation prior to the commencement of arbitration proceedings, with mediation expenses to be borne equally by the Parties. Only in the event the Parties are unable to resolve their differences through mediation may any Party initiate arbitration proceedings to enforce this Agreement.

(b) In the event there is an unresolved legal dispute between the Parties and/or any of their respective officers, directors, partners, employees, agents, affiliates or other representatives that involves legal rights or remedies arising from this Agreement, the Parties agree to submit their dispute to binding arbitration under the authority of the Federal Arbitration Act; provided, however, that a Party may pursue a temporary restraining order and/or preliminary injunctive relief in connection with any restrictive covenants, with related expedited discovery for the Parties, in a court of law, and, thereafter, require arbitration of all issues of final relief.

(c) The arbitration will be conducted by the American Arbitration Association, or another, mutually agreeable arbitration service. The arbitrator, and not any federal, state, or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this Agreement including, but not limited to any claim that all or any part of this Agreement is void or voidable. The arbitrator shall be duly licensed to practice law in the State of Texas.

(d) The arbitrator shall be required to state in a written opinion all facts and conclusions of law relied upon to support any decision rendered. No arbitrator will have authority to render a decision that contains an outcome determinative error of state or federal law, or to fashion a cause of action or remedy not otherwise provided for under applicable state or federal law. Any dispute over whether the arbitrator has failed to comply with the foregoing will be resolved by summary judgment in a court of law. In all other respects, the arbitration process will be conducted in accordance with the American Arbitration Association's employment dispute resolution rules or other mutually agreeable, arbitration service rules.

(e) As necessary the Company will pay any up-front arbitration costs and arbitrator's fees, subject to a final arbitration award on who should bear costs and fees. All proceedings shall be conducted in Dallas, Texas, or another mutually agreeable site. Each party shall bear its own attorneys' fees, costs and expenses, including any costs of experts, witnesses and/or travel, subject to a final arbitration award on who should bear costs and fees.

(f) The duty to arbitrate described above shall survive the termination of this Agreement. Except as otherwise provided above, the Parties hereby waive trial in a court of law or by jury.

All other rights, remedies, statutes of limitation and defenses applicable to claims asserted in a court of law will apply in the arbitration.

Forfeiture for Competition

The Committee may determine, in its sole discretion, that a Participant will forfeit any part or all of his or her Benefit (whether or not vested) if, while employed by the Company or within five (5) years after termination of such employment, The Participant, directly or indirectly, engages in any activity, whether individually or as an employee, consultant or otherwise, which the Committee determines, in its sole discretion, to be an activity in which the Participant is “engaging in competition” with any significant aspect of Company business. For purposes of this Plan, “engaging in competition” shall include but is not limited to representing, providing services to, or being an employee of or associated in a business capacity, any person or entity that is engaged, directly or indirectly, in competition with any Company business or that takes a position adverse to any Company business, regardless of the position or duties the Participant takes, in such a manner that is determined to be detrimental to, prejudicial to or in conflict with the interests of the Company, all as determined by the Committee in its sole discretion.

Incentive awards may be canceled if grantee engages in “detrimental activity.” Detrimental activity includes “activity at any time, during or after employment with the Corporation ... that is determined in individual cases by the administrative authority to be ... (d) acceptance by grantee of duties to a third party under circumstances that create a material conflict of interest, or the appearance of a conflict of interest, with respect to the grantee's retention of outstanding awards under the [Incentive] Program.... With respect to material conflict of interest or the appearance of material conflict of interest, such conflict might occur when ... a grantee holding an outstanding award becomes employed or otherwise engaged by an entity that regulates, deals with, or competes with the Corporation....” (from *Drennen v Exxon Mobil Corp.*, 367 S.W.3d 288 (Tex. App.—Houston [14th] 2012), rev'd by 2014 WL 4782974, – S.W.3d – (Tex. Aug. 29, 2014).

NON-COMPETE CASES

By

Paul E. Starkman

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Geographic Restrictions: Global and national geographic restrictions in non-competes have been upheld occasionally. See Business Intelligence Servs. Inc. v. Hudson, 580 F. Supp. 1068 (S.D.N.Y. 1984); Sigma Chem. Co. v. Harris, 794 F.2d 321, 374-75 (8th Cir. 1996), contra Hartman v. W. H. Odell & Assoc., Inc., 450 S.E.2d 912 (N.C. Ct. App. 1994); Firearms Training Sys. v. Sharp, 445 S.E.2d 538 (Ga. Ct. App. 1994); see Annotation, Enforceability of Restrict Covenant, Ancillary to Employment Contract, as Affected by Territorial Extent of Restriction, 43 A.L.R.2d 94 § 129 (1955). Use of the Internet expands the reasonable geographic scope of a non-compete; see, e.g., National Bus. Serv. v. Wright, 2 F.Supp. 2d 701 (E.D. Pa. 1998) (nationwide).

Duration: Some cases suggest a covenant not to compete may apply only for the period necessary to hire and train a replacement. See Bryceland v. Northey, 722 P.2d 36 (Ariz. Ct. App. 1989); Amex Distrib Co. v. Mascari, 724 P.2d 596, 604 (Ariz. Ct. App. 1986).

Boilerplate: Stating in a non-compete that an over-broad provision may be enforced "to the extent permitted by law" or "to the fullest extent permissible" has not been effective. Valley Medical Specialists v. Farber, 982 P.2d 1277, 1286 (Ariz. 1999) (provisions in the agreement shall be reformed and amended to be enforceable to the fullest extent permissible not effective); accord, Product Action Int'l Inc. v. Mero, 277 F. Supp. 2d 919, 929 (S.D. Ind. 2003) (term permitting enforcement "to the extent permitted by law" not effective. "By adding a magic phrase so that the overly broad restrictions may be enforced 'to the extent permitted by law,' the parties would delegate to the courts the task of drafting reasonable agreements."); Better Living Components, Inc. v. Coleman, 2005 WL 771592 (Va. Cir. Ct. April 6, 2005) ("[D]oes the judiciary want to become the employer's scrivener?").

Boilerplate-Contractual Injunction Clauses: Stating in a non-compete that a breach would result in irreparable harm for which the employer will have no adequate remedy at law and that enforcement of the non-compete will not prevent the employee from earning a living or supporting his/her family (or in other words, setting out the elements for an injunction in conclusory fashion in a non-compete) has usually (but not always) been ineffective. First Health Group Corp v Nat'l Prescription Adm'rs, Inc., (M.D. Pa. 2001)(when a medical benefits management group sought to enforce non-competition, non-solicitation and confidentiality agreements against its former employee, the federal district court in Pennsylvania held that the presence of an injunction clause did not avoid the required analysis of whether the company would actually suffer irreparable harm without a preliminary injunction and then denied injunctive relief because the threatened harm was both speculative and compensable by monetary damages). See also, Dominion Video Satellite, Inc. v. Echostar Satellite Corp., (10th Cir. 2004)(the Tenth Circuit reversed a preliminary injunction enforcing an exclusivity provision granting the plaintiffs exclusive right to transmit Christian-themed programming through the defendant's satellite,. The district court had granted the injunction based on the fact that the contract granted exclusive rights. The Tenth Circuit reversed, stating: "Were we to affirm the district court's finding on irreparable harm, we would in essence be ruling that whenever a party enters into a contract containing some form of exclusivity provision, injunctive relief is automatic upon breach of the clause even when the breaching

party has refuted every assertion of specific irreparable harm put forth by the opposing party. We are not willing to go that far.”); Riverside Publishing Co. v. Mercer Publishing LLC, No. 11-1249 (W.D. Wash. Aug. 4, 2011)(the district court declined to presume irreparable harm based on a contract clause in a settlement agreement stating that "absent injunctive relief, Mercer’s purported breach would cause irreparable harm" and “querie[d] whether it can give any weight to such a clause.” The court concluded that “[a]t best, the clause is evidence that at the time of the Settlement Agreement, the parties predicted that breaches of [certain terms of the Agreement] would be the sort that would cause irreparable harm” and even though “[t]hat prediction is perhaps entitled to some weight,” the district court held that the irreparable harm clause did “not relieve Riverside of its obligation to demonstrate irreparable harm.”); Roto Die Co v. Lesser, (W.D. Va. 1995)(the federal district court in West Virginia refused to enforce a clause that purportedly estopped a former employee from challenging his non-compete agreement, stating that employers “may not circumvent this public policy [disfavoring restraints on trade] merely by including boiler-plate language in their employment agreements”).

However, even though an injunction clause alone is usually not enough to support the entry of an injunction, , some courts have given weight to the parties’ contractual statements regarding harm and remedies. For example, in North Atlantic Instruments, Inc v. Haber, (2d Cir. 1999), the Second Circuit affirmed a preliminary injunction that protected a list of client contacts as a trade secret, based, in part, on the defendant's acknowledgement in his employment agreement that a breach of his confidentiality obligation would cause the employer “irreparable injury”. Likewise, the Supreme Court of Delaware in Marietta Materials Inc. v. Vulcan Materials Company, (Del. 2012) also upheld the enforcement of a confidentiality agreement that stated "Money damages would not be [a] sufficient remedy for any breach ...by either party. The non-breaching party shall be entitled to equitable relief, including injunction and specific performance, as a remedy for any such breach" on the ground that "[i]n Delaware, parties can agree contractually on the existence of requisite elements of a compulsory remedy, such as the existence of irreparable harm in the event of a party’s breach, and, in keeping with the contractarian nature of Delaware corporate law this court has held that such a stipulation is typically sufficient to demonstrate irreparable harm."

What is the harm in drafting an unenforceable non-compete?

1) Imposing unenforceable non-competes may result in a public relations nightmare. See the Jimmy John's controversy.

2) The invalidation of one employee's non-compete may result in all of the employer's other non-competes being invalidated too. See Palmer & Cay, Inc. v. Marsh & McClennan Cos., Inc., 404 F.3d 1297 (11th Cir. 2005) (applying Georgia law, the Eleventh Circuit refused to blue-pencil an invalid non-compete provision to save the remaining acceptable portions of the restrictive covenant and also ruled that the district judge’s declaratory judgment that the agreement was unenforceable had nationwide force.

3) Attempting to enforce an invalid non-compete may be a deceptive trade practice under the Uniform Unfair Trade Practices Act. See Boudreaux v. OS Restaurant Services, LLC, 2014-1169 (E.D. La. January 23, 2015)(where the plaintiff, a former employee of a steakhouse chain, sued the chain for violations of the Louisiana Unfair Trade Practices Act alleging that his former employer knew that the noncompete agreement was invalid and unenforceable and yet continued its effort to enforce it, the federal district court denied the employer’s motion to dismiss, holding that the employee had stated a plausible claim that the employer had engaged in an unfair trade practice).

4) Employer in Texas that attempted to enforce overbroad non-compete, which court found employer knew was invalid at time of execution due to "right to reform" clause, was liable for \$750,000 of employee's attorneys' fees. Sentinel Integrity Solutions, Inc. v. Mistras Group, Inc., 414 S.W.3D 811 (Tex.App. - Houston Oct. 13, 2013)(awarding fees under Tex. Bus. & Comm. Code §15.51); Kenyon Intern. Emergency Services, Inc. v. Malcolm, 2010 WL 2303328 (S.D.Tex. June 7, 2010), aff'd, 2011 WL 1332167 (5th Cir. 2011)(awarding employee attorneys' fees under §15.51); see also Contemporary Contractors, Inc. v. Strauser, 2005 WL 1774938, *2 (Tex.App.-Dallas July 28, 2005)(awarding employee attorneys' fees in declaratory judgment action invalidating non-compete, even though §15.51 criteria not met).

5) Terminating an employee for refusing to sign an invalid non-compete resulted in \$1.2 million in liability for employer (in California. Walia v. Aetna, Inc., 93 Cal. App. 4th 1213 (CA App. 2001) (affirming judgment that found employee had been terminated for refusing to sign an unenforceable non-compete and an award of \$54,312 in compensatory damages, \$125,000 in emotional distress damages and \$1.08 million in punitive damages). However, the California Supreme Court depublished the appellate court opinion, so it is not legal precedent even in California, 41 P.3d 548 (CA 2002) granting review and 66 P.3d 717 (CA 2003) dismissing its review.

Stafford CLE Webinar
October 14, 2015

Restrictive Covenants in Employment:
Crafting Enforceable Non-Compete
and Non-Solicitation Agreements

Exiting Employees:
Sample Contract Provisions
& Certification

Jennifer M. Trulock
Baker Botts L.L.P.
2001 Ross Avenue, Suite 600
Dallas, Texas 75201
214.953.6500
214.953.6503 (fax)
jennifer.trulock@bakerbotts.com

Examples of Employment Contract Provisions

Confidentiality

In order to assist Executive in performing Executive's duties, the Company agrees to provide Executive with confidential information and trade secrets of the Company and its clients. Executive recognizes and acknowledges that the Company's marketing plans; business strategy; clients, customers, suppliers, vendors and investors; whether the Company and any existing or prospective client are in discussions for new contracts; analyses, interpretations, compilations, studies, and evaluations of the Company's and its clients' information; data, knowledge, and know-how generated or prepared by or on behalf of the Company or any third party using any client's confidential information; communications, whether written, oral or otherwise, that the Company or any of its employees has with the Company's existing or prospective customers; trade secrets and any other confidential and proprietary information concerning the business or affairs of the Company ("Confidential Information") constitute a valuable, proprietary, special and unique asset of the Company's business. The Company has spent valuable consideration and time in the development, maintenance, and creation of such Confidential Information. The term Confidential Information shall exclude any information that has been made public through no fault of Executive.

Employee-Side Confidentiality Provision

Exclusions. Notwithstanding anything to the contrary herein, Confidential Information shall not include any information that: (a) was in the public domain at the time of disclosure to such Party; (b) was published or otherwise became part of the public domain after disclosure to such Party through no fault of such Party; (c) was previously disclosed to such Party without a breach of duty owed to the other Party by a third party who had a lawful right to such information; or (d) was independently developed by such Party without reference to Company Information of the other Party. Further, either Party may disclose the other Party's Company Information to the extent required by law or order of a court or governmental agency, provided that a Party that becomes subject to any such duty, request or order will provide the other Party with prompt notice of any such duty, request or order.

Non-Disclosure

Executive shall not, for any reason whatsoever, during or after the termination of such employment with the Company, use, disclose or allow access to, for Executive's own benefit or for that of another, the Confidential Information (or any part thereof) to any person, firm, corporation, association or other entity for any reason or for any purpose whatsoever. In order to protect the Confidential Information, Executive agrees not to disclose the Confidential Information to any third party or to use such Confidential Information for any purpose other than (i) for the benefit of the Company during Executive's employment or (ii) in response to a valid court order, law, rule, regulation, or other governmental action; provided that the Company is notified in writing prior to disclosure of the information and given reasonable opportunity to obtain a protective order, and Executive assists the Company, at the Company's expense, in any attempt by to limit or prevent the disclosure of the Confidential Information.

Intellectual Property

Work for Hire. For purposes of this Agreement, the term "Contract Works" shall mean all works of authorship, whether subject to copyright protection or not, including but not limited to routines, computer programs, including object and source codes, flow charts, layouts, drawings, sketches, designs, and other materials, documentation, memoranda and reports, together with all information, data and know-how, technical or otherwise, and any changes, modifications or improvements related thereto, authored, created, or conceived by Executive, either alone or in cooperation with others, during the term of employment with the Company that (i) are authored, created or conceived during the performance of Executive's duties and responsibilities to the Company, (ii) relate to the Company's business, or (iii) are authored, created or conceived using the Company's funds, facilities, resources, personnel, equipment, materials or information. Without limiting any of the Company's rights under the law, all right, title and interest in and to the Contract Works, including all embodiments thereof and all copyrights therein throughout the world, shall be and remain the sole property of the Company, and the Contract Works shall be considered a "work made for hire" within the meaning of the copyright laws of the United States to the fullest extent allowed by law. Executive agrees to execute and deliver such further documents as may be necessary or appropriate to vest in the Company all rights and interests to which it is entitled pursuant to this section or under law.

Inventions During Employment. Any ideas, designs, inventions, improvements, or developments, whether patentable or unpatentable, made, conceived, or reduced to practice by Executive, either alone or in cooperation with others, during Executive's term of employment with the Company (collectively, "Inventions") shall be and remain the sole and exclusive proprietary property of the Company to the extent such ideas, designs, inventions, improvements, and developments (i) are made, conceived, or reduced to practice during the performance of Executive's duties and responsibilities to the Company, (ii) relate to the Company's business, or (iii) are made, conceived, or reduced to practice using the Company's funds, facilities, resources, personnel, equipment, materials or information. Nothing in this section shall waive or otherwise limit any rights the Company may have pursuant to state or federal intellectual property laws or regulations.

Assignment and Cooperation. Executive hereby grants, sells, assigns, and conveys to the Company all rights in and to the Contract Works, Inventions, and all tangible and intangible property rights relating to or arising out of the Contract Works and Inventions, including, without limitation, any and all copyright, patent, trade secret, trademark, and other intellectual property rights therein. All intellectual property rights including, without limitation, patent, copyright, trade secret, trademark, brand names, color schemes, designs, screens, displays, user interfaces, data structures, organization, sequences of operation, trade dress, and other proprietary rights (the "Intellectual Property Rights") in the Contract Works and the Inventions shall be solely vested in the Company. Executive agrees to promptly disclose to the Company all Contract Works and Inventions. Executive agrees to execute all documents reasonably requested by the Company to perfect and establish the Company's right to the Intellectual Property Rights, including but not limited to inventors' oaths, declarations, and recordable forms of assignment. In the event the Company shall be unable, after reasonable effort, to secure Executive's signature on any documents relating to Intellectual Property Rights in the Contract Works or Inventions, including without limitation, any applications for letters patent, copyright, or other protection relating to the Inventions, for any reason whatsoever, Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Executive's agent and attorney-in-fact, to act for and in Executive's behalf and stead to execute and file any such application or applications or other documents and to do all other lawfully

permitted acts to further the prosecution and issuance of letters patent, copyright or other analogous protection thereon with the same legal force and effect as if executed by Executive.

Employee-Side Additional Language to Intellectual Property Provision

This paragraph shall not apply to an invention, development, work of authorship for which no equipment, supplies, facility or Confidential Information of the Company was used and which was developed entirely on Executive's own time, unless (a) the invention relates (i) to the business of the Company, or (ii) to the Company's actual or anticipated research or development, or (b) the invention results from any work performed by Executive for the Company.

Return of Company Property

Executive agrees that, upon the termination of this Agreement or Executive's employment for any reason, Executive will promptly return to the Company all Confidential Information in any form (whether printed or electronic) and any Company property issued by the Company to Executive, including but not limited to keys, key cards, laptops, or phones.

Within five days after termination of this Agreement or Executive's employment for any reason, Executive will permit the Company or its vendor to inspect and delete the Company's business and Confidential Information from Executive's personal electronic devices, including phones, tablets, computers, and storage devices.

Alternative:

Executive will delete all of the Company's business and Confidential Information from Executive's personal electronic devices, including phones, tablets, computers, and storage devices, and execute the Certification form provided by the Company.

Example of Company Property Return Certification

This is to certify that I do not have in my possession, nor have I failed to return, any computer equipment, phones, keys, electronic storage devices, ID cards, other devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, flow charts, materials, equipment, other documents or property, or copies or reproductions of any items belonging to the Company.

I further certify that I have complied with all the terms of my Employment Agreement, including the reporting of any inventions and original works of authorship (as defined therein), conceived or made by me (solely or jointly with others) covered by that agreement.

I further agree that, in compliance with the Employment Agreement, I will preserve as confidential all trade secrets, confidential knowledge, data or other proprietary information relating to products, processes, know-how, designs, formulas, developmental or experimental work, computer programs, data bases, other original works of authorship, customer lists, business plans, financial information or other subject matter pertaining to any business of the Company or any of its employees, clients, consultants or licensees.

I further agree that I have presented to the Company or its vendor all of my personal devices that I have used to receive or view Company information for inspection and deletion of Company business information, whether or not confidential.

[ALTERNATE:

I further agree and certify that I have deleted all of the Company's business Information, whether or not confidential, from all of my personal devices, including phones, tablets, computers, and electronic storage devices, other than information that I need for my personal finances and tax filings, or agreements between the Company and me.]

Finally, I hereby confirm that I will not at any time use any Confidential Information of the Company for any reason whatsoever, including to negatively influence any of the Company's clients or customers from purchasing Company products or services or to solicit or influence or attempt to influence any client, customer or other person either directly or indirectly, to direct his or its purchase of products and/or services to any person, firm, corporation, institution or other entity in competition with the business of the Company.

Name

Date

Example of Departing Employee Checklist

Pre-Final Meeting

Is there an employment agreement?

Is there a non-compete agreement?

Is there a non-disclosure agreement?

Is there an IP agreement?

Are all agreements signed by both employee and the employer?

Did the employee acknowledge the most recent employee handbook?

What reminders need to be issued to the employee upon termination?

What equipment was issued to the employee?

Did the employee have business programs on personal devices?

What right does the employer have to inspect the personal devices?

Make a plan, or understand the practice, for removing business information from personal devices.

Is the employee going to a competitor?

Does the employer need to review the employee's recent email, logins, or other activity?

Are there documents, notebooks, or other information that needs to be checked in by the supervisor?

Discuss when employee's systems access will terminate and have a plan with IT on when it will occur.

Determine how emails and phone calls post-departure are handled.

Determine whether a departure email to coworkers is permitted or standard practice.

Final Meeting

Check in equipment, keys, documents.

Review reasons for departure.

Review continuing duties to employer.

Make any needed reminders based on pre-meeting review.

If business information is on personal devices, discuss the plan to remove such information.

Ensure that supervisor has received documents or notebooks needed to continue former employee's role.

Explain when systems access will end.

Explain how emails and phone calls will be handled.

Discuss appropriate departure email if necessary.

Discuss Company Property Return Certification.

Discuss that confirmation letter of continuing duties and agreements will be forthcoming.

Post-Final Meeting

Check that all equipment is returned and complete, including hard drives, etc.

Do not immediately re-issue laptop or equipment to another employee.

Consider imaging hard drives or checking for storage devices or unusual activity when employee goes to a competitor.

Send letter confirming continuing duties and copies of applicable agreements.

Ensure that supervisor or co-workers are not missing important materials.

Check that clients have not reported unusual activity from former employee violating ongoing duties.