Protecting Investments in IP and People

By Roxann E. Henry and Eric Akira Tate

You've invested a lot in your employee base. At considerable cost, you've found the right people, developed and trained them, and disclosed to them some or all of your treasured intellectual property. Now you want to keep some other company from reaping the benefits of your investment.

And you know which other companies would be most interested in your employees and would like to protect their investments rather than engage in a bidding war over employees. So....

STOP THERE! That last thought can lead to disastrous consequences.

Even if you have no products that compete with another company, that company can be your competitor for employees. And competition triggers antitrust laws. The Antitrust Division took numerous executives and Human Resource staff by surprise with its intense campaign against no-poach (i.e., employee non-solicitation) agreements. The Division followed its civil enforcement actions against prominent Silicon Valley companies by creating the Antitrust Guidance for Human Resource Professionals in October 2016.

The Antitrust Division continues to expand the antitrust risk related to agreements about employees. Agreements not to compete can subject a company to criminal fines of up to $100 million or double the loss or gain from the agreement. Individuals involved in such agreements face a statutory maximum of 10 years in prison. The Guidance explicitly notes the availability of such criminal sanctions. The antitrust laws also provide for victims to sue for treble damages and recover their attorneys' fees. Shareholder suits have challenged boards and executives who do not implement adequate compliance programs, or misstate earnings reports due to antitrust violations.

Follow-on consequences from government enforcement arrive swiftly. On April 3, 2018, the Antitrust Division announced a civil settlement regarding a no-poach agreement that had come to light in the context of a merger review. Only 13 days later, the first of follow-on antitrust treble damage class actions was filed.

To give some sense of the incentive for lawyers bringing these claims, $604 million in civil settlements from the earlier follow-on civil cases involving Silicon Valley companies garnered two of the biggest payouts in class counsel attorneys' fees and costs in federal courts in California in the last eight years. Most importantly, in announcing an April 3, 2018, no-poach agreement settlement, the Antitrust Division reiterated that "it intends to bring criminal, felony charges against culpable companies and individuals" and that it has instituted "a broader investigation into naked agreements not to compete for employees."

EMPLOYEE MOBILITY

The Antitrust Division's current focus is consistent with a growing movement to limit the use of non-competition agreements and restrictions on employee mobility. In April 2018, Congress announced the introduction of bills in both the House and Senate that included the Workforce Mobility Act of 2018 (WMA) and the End Employer Collusion Act (EECA).

The WMA would make it unlawful for an employer to enter into a covenant with an employee not to compete; and it creates a private right of action allowing a prevailing employee to collect damages, including punitive damages, and reasonable attorneys' fees and costs. The WMA does permit agreements barring the employee from disclosing trade secrets.

The EECA would bar any agreement between two employers that prohibits or restricts one employer from soliciting or hiring another employer's employees or former employees. The EECA would offer the same remedies as the WMA

but does not include any exceptions.

Similar bills are being considered in several states. This is not the first time bills of this nature have been proposed in Congress or state legislatures, and the likelihood of any passing into law is uncertain, but they are examples of the interest in reducing restrictions on employee mobility.

Courts also appear to be applying greater scrutiny to non-competition agreements. For example, in Delaware, a state long known for having some of the most supportive laws favoring corporations, recent state court decisions suggest greater recognition for employee mobility considerations.

The vast majority of states still enforce non-competition agreements that are reasonable in scope.

In *Ascension Insurance Holdings v. Alliant Insurance and Roberts Underwood* (January 2015), a Delaware company sought to enforce a non-competition provision with a California employee when the parties had consented to Delaware venue and application of Delaware law. The Delaware Chancery Court, however, declined to enforce the Delaware choice of law provision, holding that California had a greater interest in the action, and California public policy would be violated if Delaware law were applied, as the non-competition provision would be enforceable.

PROTECTIONS EXIST

Many employers have asked the question, can we lawfully do anything to protect our significant investments in our people, who often carry with them our most competitively sensitive IP? The answer is yes.

The vast majority of states still enforce non-competition agreements that are reasonable in scope. Restrictive covenants with individual employees that are less restrictive than non-competition agreements (e.g., employee non-solicitation agreements) still appear to be universally enforceable. Employers everywhere are still free to require employees to sign confidentiality and non-disclosure agreements to protect their most sensitive information.

Further, even the Antitrust Division has recognized that there are situations where employee non-solicitation provisions are permissible, including when:

- Contained within existing and future employment or severance agreements;
- Reasonably necessary for mergers or acquisitions, investments or divestitures, including related due diligence;
- Reasonably necessary for contracts with consultants or recipients of consulting services, auditors, outsourcing vendors, recruiting agencies, or providers of temporary employees or contract workers;
- Reasonably necessary for the settlement or compromise of legal disputes; or
- Reasonably necessary for contracts with resellers or original equipment manufacturers (OEMs), contracts with providers or recipients of services other than those enumerated above, or the function of a legitimate collaboration agreement.

Indeed, the Antitrust Division mentions in its Guidance that no poaching agreements that are reasonably necessary to a larger legitimate collaboration between employers, including legitimate joint ventures, are not considered per se illegal under the antitrust laws.

TAKEAWAYS

- Non-disclosure, non-compete and non-solicitation agreements with individual employees can assist an effective IP protection program and are enforceable in most states.
- Don't assume that courts will enforce restrictive covenants simply because an employer and employee agree to them, or that you can avoid antitrust problems just because you explain what you are doing to the affected employees.
- Beware entering into non-solicitation and similar agreements (particularly about setting wage rates) with other companies, as it may violate antitrust law.
- Look at your compliance program; include HR personnel in the antitrust training and consider whether written materials need updating.
- Continuing competition won't stem prosecution if there is an agreement on some phase of the process that is not ancillary and required for a legitimate competitive purpose. For example, the companies may be vigorously competing for employees, but agreements to set benefit levels could still be criminal.
- If you find a problem that was not terminated before October 2016, you may want to consider an application under the Antitrust Division's Leniency Policy, which provides for criminal amnesty for the first to disclose an antitrust violation. ■

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