A TRO Non-Compete Primer for the 21st Century

Presented by:

Non-Competition, Trade Secrets, Proprietary Information, and Duty of Loyalty Subcommittee

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<u>Step One</u> – Investigation

1. I think a former employee bound by a non-compete agreement is violating the agreement. What should I do?

A. **<u>Is the Complaint Credible</u>?** The first step for an employer (after logging the complaint in whatever complaint-logging database is employed by the employer, if any) is to determine the credibility of the complaint. The employer will want to thoroughly investigate all credible complaints on a timely basis. Complaints that seem less credible should not be ignored, but the company may wish to deploy less resources to the investigation unless and until it is determined that the complaint is, in fact, credible after all.

B. **<u>Who Should Conduct the Investigation</u>?** The investigation should never be conducted solely by business people at the employer. Rather, it should be conducted by or at the direction of counsel (either in-house or outside counsel) so that the attorney-client privilege and work product privilege will attach to the investigation. Depending upon the sophistication of the employer's in-house counsel and information technology staff, it is probably best to involve outside counsel at the outset of the investigation, as they have expertise in conducting investigations of electronic evidence. In addition, the attorney-client privilege and work product privilege are more likely to be maintained if the investigation is conducted by outside counsel. If business people at the employer do conduct the investigation, those business people who could be perceived as being biased should not conduct the investigation, but rather serve only as witnesses.

C. **<u>Gather All Relevant Policies, Contracts, Etc</u>**. Before conducting an extensive factual investigation, first review all relevant policies, contracts. etc.

1. <u>Non-compete Agreement</u>—Assume that the employee at issue is, in fact, working for a competitor. Does the non-compete, as written, prohibit that conduct? Is the non-compete overbroad? Do you have a legitimate protectable interest in the non-compete? If the non-compete is overbroad, would the state in which the action would be brought blue-pencil overbroad non-competes? Have you, as the employer, fulfilled all your obligations to the employee such that the employee would not have a defense to the non-compete's enforcement? Was the non-compete agreement ever amended?

2. <u>Employment Agreement</u>—are there any provisions in the employment agreement that would affect the enforceability of the non-compete? Did you fulfill your obligations to the employee pursuant to that agreement? Is there other restrictive covenant language in the employment agreement?

3. Employee Handbook—does the handbook create any obligations to the employee? If so, did the employer fulfill these obligations? Is there any other restrictive covenant language in this handbook?

4. Severance Agreement—did you fulfill your obligations to the employee pursuant to that agreement? Did the employee fulfill her obligations? Is there other restrictive covenant language in that agreement?

5. Incentive Plan(s)—did you fulfill your obligations to the employee pursuant to that agreement? Is there any other restrictive covenant language in that agreement?

6. Company Issued Communication Device policy, Bring Your Own Device policy, and/or Monitoring Policy—what kind of monitoring and investigation do your policies permit? What does your employment contract permit?

7. Compensation—has the employee in question been paid all wages and bonuses, etc? You want to avoid counterclaims, if possible.

D. **Preserve All Relevant Documents**—The preservation obligation applies to plaintiffs too. Don't hamstring yourself by forgetting to preserve documents and unintentionally losing documents that would either help you prove out your case, or protect you against defenses or counterclaims raised by the former employee. Remember that the standard for relevance in civil litigation is quite low, and that the obligation to preserve documents occurs at the moment the company reasonably believes that it may be subject to litigation. While a written litigation hold memorandum is not required in most jurisdictions, it is certainly a best practice to issue one.

E. **Locating Evidence**—the best way to get a TRO is to have "smoking gun" evidence that proves the former employee is impermissibly competing. How do we get that evidence?

1. Emails--It is best that companies not self-collect. Numerous cases in jurisdictions across the country have held self-collection is not a reliable method of preserving documents. This is both because the people doing the collections are likely not information technology and/or e-discovery experts, and because they do not have sufficient indicia of independence. There is also a third reason to hire a third-party e-discovery vendor to conduct these collections—the vendor will carefully document each step of its collection process, so that you will have a clear record if the company's preservation efforts ever come into question. This is especially important for chain-of-custody purposes, as you will be submitting these emails to the court in order to obtain a TRO.

Counsel can put emails in a review database in order to locate evidence that the employee, for example, was competing with the company while still employed (while using the company's computer system and email account). One way this might be evidenced is if the employee started to email company documents to his personal email address shortly before

leaving the company. Or, you might see the employee soliciting customers to join him at his new employer. Technology-based solutions such as traditional keyword searching, clustering, email threading, and de-duplication can help make it easier for counsel to spot the "signal" through the "noise" in the documents collected.

2. Computer Forensics—It is best practice to always forensically image an employee's computer at the time he leaves the company (and before the computer is wiped and repurposed). If you have done this, once you have reason to believe that an employee is impermissibly competing, you may hire a computer forensics expert to review the image to determine if there has been any misconduct supporting your TRO. A computer forensics expert can determine, for example, if the employee inserted a hard drive or thumb drive and downloaded documents before leaving. They can also determine whether the employee tampered with the computer in order to hide evidence of his misconduct, and sometimes they can restore the deleted information.

A computer forensics expert may be able to locate passwords stored on the employee's computer that would allow access to the employee's personal email account and/or social media profile. You may also be able to discover whether the employee has been using a cloud storage system like Dropbox, where he may have been improperly taking the company's confidential information.

Whether, however, you choose to use this information will depend upon (a) whether your policies permit you to do so; (b) whether state privacy law and the federal Stored Communications Act permits you to do so; and (c) whether you are willing to assume the risk of violating your policies and/or law if they do not permit such an investigation.

At the very least, however, such information suggests that there may have been improper competition, and it will allow you to craft targeted discovery requests.

What if you discovery in the course of your investigation that an employee has been sending emails to his attorney? Whether you can review these emails turns, in large part, on the monitoring policy in place at the company. For example, in the case of *Stengart v. Loving Care*, 990 A.2d 650 (N.J. 2010) the New Jersey Supreme Court upheld an evidentiary ruling excluding emails that an employee had sent to her employer on her personal email account during working hours on a company-issued computer. The ruling was based upon the fact that the company's monitoring policy did not put her on notice that her personal emails would be monitored. The court also remanded the case to the trial court to determine whether additional remedies, such as disqualification of the employer's law firm, screening of attorneys, the imposition of costs, or some other remedy, should be imposed. While the employee in Stengart never asserted a claim for the tort of invasion of privacy or for a violation of the Stored Communications Act, those also seem to be possible avenues of recovery for a similarly situated employee. (Note that ABA

Formal Ethics Opinion 11-459 imposes an ethical duty on attorneys to warn employees about using a workplace device or system for attorney-client privileged communications.)

3. Social Media—in addition to any social media evidence obtained via computer forensics, you will also want to review any publicly available evidence on the employee's social media profiles. Always remember, however, that it is not permissible to obtain such information under false pretenses. Evidence obtained by creating a fake profile and "friending" the employee, or by forcing another employee who is a friend of the former employee to provide you with evidence, is likely not admissible.*See, e.g., Pietrylo v. Hillstone Restaurant Group,* No. 06-5754, 2009 U.S. Dist. Lexis 88702 (D.N.J. Sept. 25, 2009).

4. Mobile Devices. -- Mobile devices, unfortunately, generally cannot be imaged in the same way that laptops can be imaged. Accordingly, getting evidence of improper competition that is stored on a mobile device can be difficult. If the employee suspected of improperly competing still works for the company, and if the company's CICD or BYOD policy permits it, however, the company may be able to require the employee to hand over the entire device to the employer, for review by an electronic discovery expert and forensic expert. Alternately, if the employee has left the company already, an electronic discovery expert can help you preserve evidence, such as text messages trying to solicit your employees, that exists on mobile devices owned by your present employees.

5. Private Investigators. Always keep in mind that you cannot have a third party do what you cannot do directly.

   This principle was on display in the Illinois Supreme Court's decision in *Lawlor v. North American Corporation of Illinois*., 983 N.E.2d 414 (Ill. 2012). In that case, the plaintiff employee was employed by the defendant as a commission-based salesperson for approximately seven years. After her employment ended, she began working for a competitor. The defendant began an investigation to determine if she had violated her non-compete agreement. During the course of the investigation, the defendant's vice president of operations hired a private investigation firm that had previously conducted similar investigations on defendant's behalf. He provided the investigator with the plaintiff's date of birth, her address, her home phone number, her cell phone number, and her social security number. The investigator then hired a subcontractor to obtain the plaintiff's phone records, and the subcontractor used a "pretexting scheme" to obtain them, wherein it called the plaintiff's phone service carriers pretending to be her, and requested her records. The defendant discovered that the plaintiff had, in fact, been impermissibly contacting clients, and had successfully diverted business, both in violation of her non-compete agreement.

   Plaintiff sued for intrusion upon seclusion based upon the pretexting scheme. Defendant counter-claimed against plaintiff for breach of

fiduciary duty. Plaintiff won before the jury, which awarded her $65,000 in compensatory damages and $1.75 million in punitive damages. The judge reduced the punitive damages award to $650,000. The jury also found for defendant on its breach of fiduciary duty claim and awarded it $78,781 in compensatory damages and $551,467 in punitive damages. On appeal, the court affirmed the plaintiff's judgment, reinstated the original award for $1.75 million in punitive damages, and reversed the award in defendant's favor on the breach of fiduciary duty claim.

Before the Illinois Supreme Court, the defendant argued that it should not be held responsible for the subcontractor's "pretexting scheme" because it did not itself obtain plaintiff's phone records, and because there was not sufficient evidence demonstrating an agency relationship with the subcontractor. This argument failed, and the court held that the jury had a sufficient basis to impose vicarious liability, and upheld the reversal of the award in defendant's favor on the breach of fiduciary duty claim. The court did, however, hold that there was no basis for any award of punitive damages, as there was no evidence in the record that the defendant had an intentional, premeditated scheme to harm plaintiff. 983 N.E.2d at 432.

When hiring independent contractors, such as private investigators, it is good practice to clearly direct them to follow all applicable laws and regulations, and inform them that you do not want any information that was obtained through methods that violate the law or that are based upon deception.

6. Interview Witnesses—if possible, interview witnesses who may have information about the employee's impermissible competition, and see if they would be willing to provide an affidavit for you to submit along with your TRO. When interviewing witnesses, think whether there is any evidence that you would like to be submitted along with their affidavit.

<u>Step Two</u> – Deciding Whether to Litigate

1. I have confirmed that the employee is violating the non-compete. Now what?

A. <u>Assess the threat</u>.

Not all technical violations of a non-compete are the same. Some involve very serious threats to the business by way of the taking of customers or employees, and some perhaps have that potential, but others are hardly verifiable threats at all. For example, the employee may have gone to a very small competitor that doesn't really compete very strongly with the plaintiff, or perhaps competes in an area that only overlaps slightly with the plaintiff's business, or the employee, because of talent, ability, or the nature of the employee's new position, is unable to effectively take customers or employees from the plaintiff. It may be sheer speculation that any damage will be done at all. In short, the likelihood and amount of damages vary in each situation. Sometimes the damages can be in the seven figures or more, *See Century Bus. Servs., Inc. v. Bryant*, No. 1:01-CV-02166, 2010 WL 1416711 (N.D. Ohio Mar. 31, 2010), other times they do not exist at all.

Generally, in federal court, a "plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest."*Winter v. Natural Resources Defense Council*, 555 U.S. 7, 20 (2008).Courts have emphasized that since injunctive relief is considered extraordinary remedy, it may only be awarded upon a clear showing that the plaintiff is entitled to such relief. *Mazurek v. Armstrong*, 520 U. S. 968, 972 (1997) *(per curiam*)

So, the damage to the business, or at least potential damage to the business, needs to be assessed. Oftentimes, damages are very difficult to quantify and even more difficult to obtain. Keep in mind, that while not being able to calculate all of your damages is actually a requirement of obtaining injunctive relief, however, you must be able to show that such damages are likely. So just because you cannot figure out the damages at this point in time does not mean some action should not be taken. However, you must be in a position to show that damage is not just speculative; it is likely.

B. <u>Consider the impact</u>.

In addition to the threat from the non-compete, also consider collateral issues. A potential plaintiff probably should consider the effect on its own employees in deciding to litigate or not to litigate. For example, will this send the right message to the employees that if they violate a non-compete there will be consequences? On the other hand, it can have a negative effect on morale in the sense that perhaps other employees are friendly with the defendant and do not like being dragged into litigation or the fact that their friend was sued. It can have an effect on recruitment as well. Finally, consider the cost and make sure the client understands that TRO litigation results in large legal bills that accumulate very quickly.

C. Consider the relationship.

Another important consideration in determining whether to litigate is the company's relationship with the former employee's new employer. In many instances, competing companies resolve non-compete related issues amicably, agreeing to a short-term compromises that address the concerns quickly and with little expense. Any agreements between competitors must be careful not to violate anti-trust laws, but generally when a valid non-competition agreement would prevent an employee from working for another company entirely, an agreement specific to that employee, restricting him from working in a particular territory or with certain customers can be a reasonable compromise. Depending on the circumstances, this is often a viable option.

D. Determine your goals.

The key question is: What is the end game? How does the plaintiff want to see this matter resolved? Of course, if that resolution involves litigation, costs will have to be kept in mind as well as the inconvenience factor as far as the disruption to the business. Witnesses will likely need to be deposed or be called to a temporary or preliminary injunction hearing if the matter is not resolved shortly after the temporary restraining order.

2. Should you first send a letter to the employee and the employee's new employer?

Oftentimes, letters are sent to the employee and the employee's new employer. Depending on the facts and initial assessment, this may or may not be a good idea.

A. Sending a letter.

Sending a letter is not necessarily a good idea if the potential plaintiff has indisputable evidence of a flagrant violation of the covenant not to compete, especially if it causes an immediate threat to the plaintiff's business. In that case, immediate action needs to be taken and there is no time to wait for a response from the employee or their new employer. In those circumstances, a letter only serves to allow the employee and their new counsel to prepare for an upcoming TRO, or to file a pre-emptive lawsuit.

B. Filing before sending a letter.

On the other hand, such letters can be very helpful if it has been determined that litigation is not the best option because a perceived threat is not great or other circumstances make litigation unattractive. Sending a letter can often have a deterrent effect, or at least cause the defendant and their new employer to stand down in part, if not in whole. Letting the employee and the employee's new employer know that you are watching the situation and at least have the prospect of holding a lawsuit over their heads can advance the plaintiff's interest without even exercising the right to file a lawsuit. Also consider whether you want to send a cease and desist letter that does not cc the new employer, as this reduces the likelihood of a tortious interference counterclaim if a lawsuit is brought.

3. If you proceed straight to litigation, do you want to request a TRO or not?

A. <u>Pros of requesting a TRO</u>.

The advantages to filing for a TRO are fairly straightforward. You send a very strong message very quickly. You catch the defendant off-guard and can usually at least get an order from the court requiring the defendant to preserve all of its evidence, particularly electronic evidence. At that point, if the employee is engaged in active violations of a covenant not to compete, or worse (i.e., using misappropriated confidential information), which often has the effect of causing the defendant to curtail its activities. And, if you have confirmed evidence of a violation of a covenant not to compete, you have a reasonable chance of getting affirmative relief from the court prohibiting the plaintiff from competing or obtaining other injunctive relief that is restrictive to the defendants and helpful to the plaintiffs. As one can imagine, nothing helps stop a violation of a covenant not to compete like an injunction prohibiting the employee from working for the competitor.

B. <u>Cons of requesting a TRO</u>.

Therefore, in general, the stronger the plaintiff's evidence, the more it should consider commencing a TRO, and vice versa. If the evidence is weak, of course, and the court denies the TRO, it can have a detrimental psychological effect, if no other, and can stain the case forever. Moreover, oftentimes there are compelling reasons to believe that a defendant has violated a non-compete, but no strong admissible evidence of such violation. In such cases, it can make more sense to proceed without a TRO so that the plaintiff can build its evidence through discovery in order to prove its case without losing momentum or having the stigma of having lost at the TRO stage.

C. <u>When to request a TRO</u>.

TROs should be considered when the plaintiff already has its "ducks in a row" at the time of initiating a lawsuit. Unfortunately, many times, the evidence is in the hands of the defendant, and specifically the defendant's emails, texts, or other electronic evidence simply is not knowable until after the filing of a lawsuit. In other cases, of course, a search of the plaintiff's own computer records can reveal strong evidence of a violation and can reveal, for example, that the plaintiff misappropriated trade secrets while working at the plaintiff, or was already helping a competitor while on the payroll of the plaintiff. This evidence can be very valuable in swaying a judge to issue an injunction because the legal reality is that many courts may be reluctant to issue a TRO or a preliminary injunction even if there is a technical violation. Evidence of additional wrongful acts, particularly when there is an imminent threat, can often overcome this inhibition and cause the court to issue relief.

Step Three – What court?

1. Be first!

You will want to be the first to the court house if you can, especially in a case in which you anticipate a race to the courthouse for the most favorable forum. You may well find yourself in parallel proceedings in two courts. Employees will be motivated to run the clock on the non-competition agreement through delays and through stays in proceedings, especially in the case of short non-competition periods, to moot the matter.

2. State or federal court?

Often, breaches of non-competition agreements and actions to declare restrictive covenants unenforceable will be brought in state court because there is no federal question jurisdiction, and often, there is not diversity jurisdiction. In cases in which diversity exists, or cases in which another claim involved in the dispute provides a basis for federal question jurisdiction, you may want to bring your case in federal court or to remove it to federal court. This is especially true for employers in states in which there are strong public policies against restrictive covenants and the employee/new employer has sued for declaratory relief in the state court. In that circumstance, a further strategy for the employer after removal to federal court is to move to transfer the case to a federal forum in a more favorable state.

3. Which jurisdiction?

A. Is there personal jurisdiction and proper venue?

The selected forum will have to be able to exercise personal jurisdiction over the defendant -- the employee, and in most cases the new employer, in the case of a suit to enforce the covenant(s) and the employer in the case of a declaratory judgment action to declare the covenant(s) unenforceable or to narrow the covenant(s). Additionally, venue must be proper.

The employment or non-competition agreement may (and likely does) contain a forum selection clause. That clause may select exclusive venue(s) for resolving disputes and may also state that the parties expressly submit to that forum's exercise of personal jurisdiction and venue or waive objections as to personal jurisdiction and venue in that forum.

B. Are the forum state's laws favorable or unfavorable to you?

Naturally, a primary consideration for either the employee/new employer or the former employer in choosing a forum will be the law that the forum will apply, as the choice of law may be outcome determinative. For example, is the forum a blue-pencil jurisdiction or not? Does the forum have a strong public policy against enforcing restrictive covenants? A forum may be asked to apply another state's law -- particularly if there is a choice of law provision in the agreement -- or to find that a choice of law provision contravenes public policy.

Apart from the forums' differing public policies and approaches to enforcing restrictive covenants, other differences in law should be considered depending

on the particular facts. Are there other claims, for example, misappropriation of trade secrets, that differences in the states' laws will affect? For example, to what extent will other viable, applicable theories, such as breach of loyalty, be preempted if a misappropriation of trade secrets claim is pleaded?

Additionally, employers will also want to consider a potential forum's track record in granting temporary restraining orders in non-competition cases, especially the forum's requirements for showing irreparable harm and the forum's approach to the particular type of restrictive covenant - non-compete, non-solicitation, etc.

C. <u>Is there a forum selection clause?</u>

If there is a forum selection clause, as a practical matter, the employer likely drafted it to select a forum that is more favorable to the employer. Such clauses, if exclusive rather than permissive, generally are binding on the parties for disputes that fall within the scope of the clause. *See M/S Bremen v. Zapata Off-Shore Co.,* 407 U.S. 1 (1970). To escape the forum choice, one must show enforcement would be unreasonable, unfair or unjust -- a very "heavy" burden.[1] Id.

In federal court, where a forum selection clause renders venue improper a federal district court has discretion to dismiss or to transfer the case to "any district or division in which it could have been brought" if such transfer is "in the interest of justice." 28 U.S.C. 1406(a). Federal courts favor transferring venue or staying proceedings rather than dismissing actions. The court when examining propriety of venue examine whether inconvenience to the witnesses, the situs of the dispute and evidence, and the forum's relative interests in the dispute and case, and the interests of justice weigh against transferring venue, notwithstanding the forum selection clause. Where transfer is not possible and venue is improper, federal courts will dismiss the action. Additionally, if there are parallel proceedings, abstention doctrine may lead to dismissal rather than transfer. *Swenson v. T-Mobile USA Inc*., 415 F.Supp.2d 1101, 1104-05 (S.D. Cal, 2006).

Even with a forum selection clause, a court may not be able to enjoin parallel litigation or may be highly reluctant to enjoin the parties from participating in parallel litigation in a sister state. *Advanced Bionics v. Medtronic*, 29 Cal. 4th 69, 2002 Cal. LEXIS 8599 (Cal. Sup. Ct. 2012) (refusing to uphold an attempt to stop parallel litigation in another state with an anti-injunction suit.)

If you are on the wrong end of the forum selection clause, you will find yourself looking for options to escape the contractual choice of forum.

1. <u>Is the clause mandatory or permissive?</u>

Review the clause with care. It may be permissive not exclusive. Courts will scrutinize whether the specific language of the clause is exclusive,

[1] Some jurisdictions phrase the test differently, honoring the contractual forum choice unless the chosen state has no substantial relationship to the parties or applying the law of the chosen state would contravene a fundamental policy of a state that has a materially greater interest. *Ayco Co., L.P. v. Frisch*, 795 F. Supp. 2d 193, 200-201 (N.D.N.Y. 2001).

and therefore mandatory, and whether the language encompasses the particular claims. A mandatory clause has "clear language showing that jurisdiction is appropriate only in the designated forum."*Adams Torres v. Soh Distribution Co*., 2010 U.S. Dist. LEXIS 47448, *8 (E.D. Va. 2010)("shall file any suit … only in federal or state court" in Pennsylvania was mandatory).

2. Are there inconsistent agreements?

If there are multiple agreements that govern the parties' relationship, look for inconsistencies. Incongruity within the agreements, especially as to the forum selection clauses, may lead a court not to apply the clause. *Stuart v. Marshfield Door Systems, Inc*., 2012 U.S. Dist. LEXIS 33916 (D. Colo. 2012).

3. Are there strong state policies against restraints of trade?

Some courts in states with a fundamental or strong public policy against restraints on trade have rejected enforcement of a forum selection clause designed to circumvent that state's public policy. *Beilfuss v. Huffy Corp.,* 274 Wis. 2d 500, 2004 Wisc. App. LEXIS 408 (Wisc. Ct. App. 2004) (declining to enforce forum selection clause choosing Ohio).

Many courts, however, respect the forum selection clause even if there are potentially outcome determinative differences in law. *Mahoney v. DuPuy Orthopoedics, Inc.,* 2007 U.S. Dist. LEXIS 85856 (E.D. Cal. 2007); *In re Autonation, Inc.* 228 S.W.3d 663, 670, 2007 Tex. LEXIS 604, *20 (Tex. 2007). Preventing forum shopping has been rejected as a basis upon which to void forum selection clauses. *See In re Boehme*, 256 S.W.3d 878, 881-882 (Tex. App. 2008); *Swenson*, 415 F.Supp.2d at 1104-05 (enforcement of the forum selection clause did not violate the public policy of California as to forum as both forums used the same rule to enforce forum selection clauses).

In states that have strong public policies opposed to enforcing restraints of trade, of course, the employer may try to remove the case to federal court, if possible.

As a practical matter, whether forum selection clauses end up unenforceable in the face of public policy may depend on the relative contacts of the parties to the different forum states, which determine the relative interests of the forums in resolving the dispute.

4. Would it be impossible for the plaintiff to sue in the contractual forum?

The forum selection clause can be defeated by meeting the heavy burden of showing that enforcement would be "unreasonable, unfair or unjust" because the clause makes it impossible for the plaintiff to sue. To defeat a mandatory forum selection clause, one must show that trial in the contractual forum will be so "gravely difficult and inconvenient" as to deprive a party "for all practical purposes" of "his day in court."

Generically arguing inconvenience, distance, cost, or even outcome effecting differences in law generally will not suffice to rebut the strong presumption that a forum selection clause is enforceable. *Adams Torres* at *12-13 (expenses of litigation in distant forum not sufficient to show grave inconvenience).

5. Are there minimum contacts for personal jurisdiction?

Courts may not enforce even a mandatory forum selection clause over non-residents otherwise lacking in sufficient contacts to establish personal jurisdiction without the forum selection clause, or if venue is clearly more convenient in a forum other than that in the forum selection clause. *Colemant Ins. Brokers of Conn. LLC v. Byrne*, 2008 Conn. Super. LEXIS 505 *5-6 (Conn. Sup. 2008).

6. Is there egregious fraud, overreaching and overweening bargaining power?

The forum selection clause theoretically may be defeated by meeting the heavy burden of showing that enforcement of the forum selection clause would be unreasonable, unfair or unjust because the clause is invalid for fraud or overreaching, and overwhelming bargaining power. However, this is very much an uphill argument and unlikely to succeed. Disparity in bargaining power, absent evidence of bad faith motive, generally does not render a forum selection clause unfair. *Adams Torres* at 10-11. As well, fraud in entering into the contract is not enough: there must be a showing that alleged fraud or misrepresentation induced the party opposing the forum selection clause to agree to its inclusion in the contract. *Setzer et al v. Natixis Real Estate Capital, Inc*., 537 F. Supp. 2d 876, 879 (E.D. Ky. 2008).

7. If you are in federal court, stress the other factors under §1404(a).

If in federal court facing a motion to transfer, stress other factors that are weighed under §1404 along with the forum selection clause. 28 U.S.C. §1404(a). §1404(a) governs motions to transfer. A forum selection clause figures centrally and is neither dispositive nor to be given no consideration. *Stewart Organization Inc. v. Ricoh Corp. et al.,* 487 U.S. 22, 32-33 (1988). The totality of circumstances is required to negate the forum selection clause and transfer the action. *Earvision, Inc. v. Wyman,* 2012 US. Dist. LEXIS 76205, *16-17 (D.R.I. 2012). The other factors include: (i) the law that governs the contract, (ii) the place of execution of the contract, (iii) the place of performance, (iv) the availability of remedies, (v) the public policy of the forum, (vi) the location of the parties, (vii) the convenience of witnesses, (viii) the accessibility of evidence, (ix) the relative bargaining power of the parties, (x) the circumstances surrounding their dealings, (xi) the presence or absence of fraud, undue influence or other extenuating or exacerbating circumstance, and (xii) the conduct of the parties.

4. What if you have an arbitration provision?

If there is an arbitration provision, you most likely will find yourself in arbitration, absent ambiguity in its coverage of the dispute. Recently, in *Nitro-Lift Techs, LLC v. Howard,* 133 S. Ct. 500 (2012), the U.S Supreme court, expressing strong support of the Federal Arbitration Act, found that an arbitration clause in a non-competition agreement was valid, and all other disputes related to the non-compete agreement, including its enforceability, should be decided by an arbitrator rather than the court.

Specifically, the employment contract between Nitro-Lift and two former employees included a non-competition clause and the following arbitration clause:

> "Any dispute, difference or unresolved question between Nitro-Lift and the Employee (collectively the "Disputing Parties") shall be settled by arbitration by a single arbitrator mutually agreeable to the Disputing Parties in an arbitration proceeding conducted in Houston, Texas in accordance with the rules existing at the date hereof of the American Arbitration Association."

After the two employees left to work for a competitor, Nitro-Lift served a demand for arbitration, claiming the employees breached the non-compete. The employees filed suit in Oklahoma state court, alleging the non-competition agreement violated the state law and was null and void. The lower court determined the arbitration clause was valid and dismissed; the Oklahoma Supreme Court reversed on the ground that the arbitration clause gave way to Oklahoma's public policy regarding non-competition agreements. Without addressing validity of the arbitration clause, the Oklahoma Supreme Court declared the non-competition agreement "void and unenforceable" under the Oklahoma state law.

On appeal, the U.S. Supreme Court reversed, The Court held that under the Federal Arbitration Act, it is for the arbitrator, not the state court, to decide whether a covenant not to compete violates the applicable state law.

5. If an employee, do you want to run to court first for a Declaratory Judgment?

Instead of waiting around to be sued, the employee, and perhaps the new employer, can take control of the litigation and file a declaratory judgment action seeking a court ruling that the non-competition covenants are not enforceable.The federal Declaratory Judgment Act permits, but does not require, a court to declare the rights of the parties in the case of an "actual controversy." 28 U.S.C. § 2201-2202.States also have declaratory judgment acts.

Potential benefits to this approach include:

1. Choosing the forum. Choosing the forum may effect which state's laws apply, and thereby, determine the outcome.

2. Removing uncertainty. The employee and new employer are likely to be distracted and worried about what to say to potential clients, perhaps deciding themselves which clients are immaterial or material, or not reaching out to potential clients that could be contacted.

3. Mitigating risk mitigation. Obtaining an answer as to enforceability of the non-competition provision before moving on a hire that might potentially be a breach minimizes exposure. Even if the employee loses, a declaratory action before breach avoids potentially significant liability.

4. Forcing an early resolution to the dispute.

5. Reducing cost. The action may net a final resolution of the covenant's enforceability often for a fraction of the cost incurred in defending a breach of contract case, particularly in a case in which it is likely that the employer will seek to enforce the restrictive covenants. For example, it may minimize costs by eliminating discovery as to what the employee has done in the new job and may take away the need to produce client records, invoices, and emails.

6. Improving perception (possibly). A judge may look more skeptically at the employer, particularly if a pre litigation letter writing campaign demonstrates the employer has taken an unreasonable position, rather than potentially viewing the employee as flaunting contractual obligations or competing in a manner that does not seem fair.

Of course, the action must be ripe. Logically, an action to declare a non-competition agreement unenforceable is ripe because the views the employee and ex employer diverge about what an employee is permitted to do following termination. But there needs to be a controversy, and there is no controversy if there is no future job prospect in the industry (and so no present intent or ability to compete). Courts look for a "concrete" opportunity and for the employer to have demonstrated some intent to enforce the restrictive covenant.

B. "Concrete" opportunity

The court concluded there was no controversy in *McKenna v. PSS World Medical, Inc.,* 2009 U.S. Dist. LEXIS 58292 (W.D. Pa. July 9, 2009). A sales representative had an agreement with arguably overbroad restrictions: his non-compete precluded him from competing with his former employer for a one-year period following termination.[2] He sued in state court, alleging he aware of certain

[2] The non-competition clause read: "During Employee's employment with Company and for a period of twelve (12) months thereafter, Employee shall not either directly or indirectly, on Employee's own or another's behalf, engage in or assist others in any of the following activities (except on behalf of the Company):

(a) recruiting, or attempting to recruit for any person or Entity which competes or plans to compete with Company, any person employed by Company;

(b) within Geographic Area, soliciting from any of Company's customers any business of thesame type as the Company Business;

(c) regardless of Geographic Area, soliciting from any of the Specified Customers any business of the same type as the Company Business, or

(d) regardless of Geographic Area, [*3] (i) entering into an agreement with any Specified Customer to provide goods and services of the same type as the Company Business, (ii) accepting business from any Specified Customer of the same type as the Company Business, (iii) assisting a competitor of the Company in the solicitation from any specified customer of business of the same type as the Company Business, or (iv)

opportunities in the medical supply business and that "prospective employers" were "unwilling to hire him as a result of the existence" of his non-compete. But, fatally, he did not allege he had an offer or conditional offer from a specific new employer.

After removing the suit to federal court, his former employer argued that the controversy was not ripe for review under the federal Declaratory Judgment Act because there was not an "actual controversy." The court focused on three factors: adversity of interest, the conclusivity that the declaratory judgment would have on the legal relationship between the parties, and the practical help of the judgment. [3]

First, the employee did not allege a specific opportunity was foreclosed by his ex-employer's threatened enforcement of the non-compete, and accordingly, the "adversity of interest" factor did not favor the exercise of jurisdiction. If an employee can locate a job opportunity, secure a commitment of some kind regarding his hiring, and demonstrate an effort by the ex-employer to enforce the covenant, the "adversity of interest" factor likely will favor jurisdiction.

Second, the "conclusivity" factor suggested an opinion would be advisory opinion. There were not facts alleged about the employment opportunity. Notably, the covenant at issue was a client non-solicitation clause, which is an inherently fact-specific restriction, and not as broad as an outright prohibition on work in an industry.

Third, the "utility" factor also was no help, as the court reasoned it could not consider the impact of a ruling on a third party such as the employee's prospective employers.

McKenna highlights a significant difference between general non-compete clauses and other types of restrictive covenants: although the court may have a basis to rule on the enforceability of general non-compete clauses from the face of the document without detailed evidence about a specific job opportunity, restraints that are activity covenants like a non-solicitation or a non-disclosure clause are fact specific and complicate declaring a party's rights: even with a well-drafted non-solicitation covenant, solicitation of one client may be okay but solicitation of another may be improper.

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encouraging or facilitating any Specified Customer to purchase goods and services of the same type as the Company Business from a competitor of the Company.

[3] The complaint did not allege that plaintiff been offered employment with another company in the same business as defendant. The complaint did not allege that plaintiff had accepted employment with another company in the same business as defendant. There was no allegation that defendant has attempted to enforce the restrictive covenant. Rather, in the Court's view, the employee sought a determination of his rights under the employment agreement based upon a contingency - that he is offered employment in contravention of the employment agreement and that he accepts the offer.

C. Employer has demonstrated some intent to enforce.

Generally, for an action to be ripe, an employer must have demonstrated some intent to enforce the non-competition agreement. Of course, this usually occurs after an employee seeks a release from the non-competition obligation and points to a concrete opportunity that waits the employee upon the granting of the release. In response, the employer typically will write a threatening letter that indicates a clear intent not to provide the release and states its intent to sue on the breach.

In *Lapolla Indus. v. Hess,* 2013 Ga. App. LEXIS 926 (Ga. Ct. App. 2013), for example, the old employer sent a cease and desist letter to its former employee threatening to sue the employee for breach of contract and to seek an injunction, damages and attorney's fees. The old employer also sent a letter to the new employer putting it on notice of the existence of the non-compete agreement and threatened to sue the new employer for tortious interference with contract if it continued to employ the employee in contravention of the covenants. The trial court refused to apply the Texas forum selection and choice of law clause in the non-competition agreement and ruled that the employee's non-competition covenants with the former employer were unenforceable. The Georgia Court of Appeals upheld that the ruling.

Likewise, in *Newell Co. v. Lee,* 950 F. Supp. 864 (N.D. Ill. 1997), the defendant who signed a restrictive covenant as part of a purchase of his business, requested an "okay to proceed" with a line of products that the defendant claimed would not violate the restrictive covenant and asserted that he may "test the non-compete." In rejecting arguments that the claims were not ripe, for adjudication, the court held the defendant's intention to engage in a business venture that would potentially compete directly with plaintiff's product line was sufficient to establish ripeness of the plaintiff's claims, relying on the alleged threat to 'test' the covenant and the defendant's rejection of the plaintiff's interpretation of the covenant. *See also Arakelian v. Omnicare, Inc.,* 735 F. Supp.2d 22, 30 (S.D.N.Y. 2010)(the employee "unequivocally intend[ed] to compete against [the employer] as soon as possible" and had interviewed for a position with one of the employer's competitors, the interviewer had expressed concern about possible litigation if the company hired the employee; the employee had been offered a position with a competitor that she intended to accept "in the near future" if she did not find other work, and the former employer had refused to agree not to enforce the restrictive covenant); *Stryker v. Hi-Temp Specialty Metals, Inc.,* 2012 U.S. Dist. LEXIS 28414 (D.N.J. 2012)(the employee evidenced a concrete plan, which was not contingent on any funding issues or hiring of additional employees, to form a competing company).