

## DETAILED TABLE OF CONTENTS

PREFACE .....	v
AUTHORS AND CONTRIBUTORS .....	ix
SUMMARY TABLE OF CONTENTS .....	xiii
CHAPTER 1. GENERAL CONSIDERATIONS .....	1
I. Terminology.....	1
II. State-by-State Variations.....	4
III. Public Policy Consideration.....	4
A. Restraint of Trade vs. Freedom of Contract.....	4
B. The General Preference for Narrowly Tailored Restrictions .....	5
C. The Use of Balancing Tests .....	6
1. Balancing Tests in States Without Statutory Requirements .....	6
2. Balancing Tests in States With Statutory Requirements .....	8
IV. The Impact of Equitable Considerations .....	8
V. Recommended Contract Drafting Process .....	9
CHAPTER 2. RISK ASSESSMENT REGARDING NONCOMPETE CONTRACTS AND THEIR ENFORCEMENT .....	13
I. “Use” Related Risks .....	14
A. Practical Risk and Benefit Considerations .....	14
1. Negative Effect on Recruiting and Employee Morale .....	15
2. The “Consideration” to Be Provided an Incumbent Employee .....	15
3. Administrative Burden on Managers and Staff .....	15
4. Creates “Consistency” Challenges for Enforcement .....	16
5. May Reduce Ability to Hire Aggressively From Competitors.....	16
6. Legal Cost .....	16
B. Antitrust Liability .....	17

- 1. Employer-Employee Noncompete Agreements ..... 19
- 2. No-Switching Agreements ..... 23
- C. California State Law ..... 27
- II. Implementation and Enforcement-Related Risks ..... 28
  - A. The Employee or Applicant Who Refuses to Sign ..... 28
    - 1. The Business Risk of Losing a Valuable Employee ..... 28
    - 2. Wrongful Termination Claims ..... 30
  - B. Deciding to Pursue Enforcement ..... 32
    - 1. Tortious Interference ..... 33
    - 2. Malicious Prosecution ..... 38
    - 3. Defamation ..... 39
    - 4. Attorney’s Fees ..... 40
    - 5. Antitrust ..... 43

CHAPTER 3. PROTECTABLE INTERESTS ..... 45

- I. Introductory Clauses ..... 45
- II. Understanding the Protectable Interest(s) (Justification) ..... 49
  - A. Sale of a Business ..... 49
  - B. Trade Secrets and Confidential Information ..... 50
  - C. Customer Goodwill ..... 57
  - D. Specialized Training ..... 58
  - E. Unique Talent or Promotional Investment ..... 59
  - F. Workforce Stability ..... 60
  - G. To Resolve or Settle Disputes ..... 61

CHAPTER 4. TYPE OF RELATIONSHIP ..... 63

- I. Physicians ..... 64
- II. Lawyers ..... 68
- III. High-Level Executives ..... 70
- IV. Mid-Management Positions ..... 73
- V. Research and Development Positions ..... 74
- VI. Sales Positions ..... 75
- VII. General Trades ..... 76
- VIII. Independent Contractors ..... 77
- IX. Performers; On-Air Talent ..... 78
- X. Securities Brokers ..... 81
- XI. Security Guards ..... 83
- XII. Locksmiths ..... 84
- XIII. Partner/Co-Owners ..... 84
- XIV. Exempt/High-Wage Earners ..... 85
- XV. Seller of a Business ..... 86

XVI. Franchise Relationships.....	89
CHAPTER 5. RULES OF REFORMATION.....	91
I. First State Category: No Reformation—All or Nothing.....	91
II. Second State Category: Reformation.....	93
III. Third State Category: Blue Pencil.....	96
CHAPTER 6. CONTROLLING LAW AND VENUE.....	101
I. The Complexity of Multi-Jurisdictional Noncompete Enforcement Issues .....	101
II. Choice of Law .....	104
III. Forum/Venue Selection .....	108
IV. Venue Combined With Mandatory Arbitration .....	112
V. Multinational Employers.....	115
CHAPTER 7. SIGNATURE AND WRITING REQUIREMENTS .....	117
I. Writing.....	117
A. Oral and Implied Agreements Versus Written Agreements .....	117
B. Statute of Frauds .....	119
C. Modifications .....	120
II. Signature.....	123
A. Written Signature .....	123
B. Electronic Signature .....	125
CHAPTER 8. CONSIDERATION.....	131
I. Offer of Employment as Consideration.....	131
II. Unique Consideration Requirements for Noncompete Agreements for New Hires .....	133
A. Texas .....	133
B. Oregon .....	134
C. Idaho .....	134
III. Consideration Requirements for Incumbent Employees .....	134
A. Continued Employment.....	134
B. Consideration Beyond Continued Employment.....	135
C. Contractual Substitution, Novation, or Settlement.....	137
D. Stock or Incentive Compensation Pay .....	138
E. Severance Pay—Unemployment Trigger .....	140
F. Special Severance Pay—Termination Trigger .....	140

CHAPTER 9. OPENING PROVISIONS OF THE AGREEMENT ..... 143

- I. Ancillary Agreement or Relationship ..... 143
- II. Names of the Parties ..... 145
- III. Date of the Agreement..... 146
- IV. Place of Making..... 148
- V. Recitals: General Purpose and Factual Stipulations..... 148
- VI. Recitals: State Law Variations..... 153
- VII. Position and Duties to be Performed..... 155
- VIII. Term and Termination ..... 156
- IX. At-Will Employment Status..... 158
- X. Contractual Duty of Loyalty ..... 159
- XI. Notice Clause..... 165

CHAPTER 10. THE NONDISCLOSURE CLAUSE ..... 169

- I. Defining Confidential Information..... 169
- II. The Nondisclosure Promise..... 179
- III. Return of Materials ..... 182
- IV. Limits on Authority—CFAA Foundation..... 184
- V. Preserving Parallel Rights and Remedies ..... 185

CHAPTER 11. INVENTIONS AND OTHER INTELLECTUAL PROPERTY  
ASSIGNMENT PROVISIONS..... 187

- I. Duties Outside the Express Contract to Assign Works..... 188
- II. Limits on Rights Created Through Agency Law..... 190
- III. Copyrights ..... 192
- IV. Patent Rights..... 195
- V. Independent Contractors and Consultants ..... 196
- VI. Consideration..... 197
- VII. State Law Regulation of Assignment Contracts ..... 199
- VIII. *DDB Technologies*: Present Versus Future Assignment and  
Governing Law..... 206
  - A. Governing Law ..... 206
  - B. Immediate Assignment v. Future Assignment  
Language ..... 209
- IX. Combining Invention Assignment and Copyright Clauses..... 211
- X. Optional Provisions ..... 213
- XI. The Invention Assignment Hold-Over or Trailer Clause..... 216
- XII. The Promise Not to Incorporate Others’ Copyrightable  
Works ..... 221

CHAPTER 12. THE TRADITIONAL NONCOMPETE AGREEMENT.....	225
I. The Elements of a Noncompete .....	225
II. Time.....	227
III. Geography .....	233
IV. Scope of Activity Restrained .....	240
A. General Scope Issues .....	240
B. Competing Company Definition .....	246
C. The Look-Back Period .....	251
D. Abandoned or New Business Sectors .....	251
CHAPTER 13. CUSTOMER NONSOLICITATION CLAUSES .....	253
I. Protectable Interest.....	254
A. Customer Goodwill.....	255
B. Confidential Information.....	256
II. Reasonably Limited With Respect to Time and Scope of Activity.....	258
A. Reasonable Time Limitation .....	268
B. Reasonable Limitation as to Scope of the Nonsolicitation Clause .....	260
C. “Active” Solicitation Versus “Passive” Acceptance of Business .....	262
III. Defining Which Customers Are Covered by the Nonsolicitation Clause .....	264
A. Customers Within a Certain Geographic Area .....	266
B. Customers With Whom the Employee Had “Material Contact” .....	267
C. Customers About Whom the Employee Learned “Confidential Information” .....	268
D. “Current” Customers Versus “Former” Customers .....	269
E. “Prospective” Customers .....	270
CHAPTER 14. EMPLOYEE NONSOLICITATION CLAUSES .....	273
I. Noncompete or Not? .....	274
A. Restrictions Against Interference With Employee Relationships .....	274
B. The No-Hire Clause and Restraint of Trade Arguments.....	275
II. Underlying Protectable Interests or Justification .....	276
III. Scope of Nonrecruitment Restrictions .....	278
A. Prohibited Activities.....	278
B. Temporal Scope .....	281

xx DRAFTING AND ENFORCING COVENANTS

- C. Contact or Geography Limitations ..... 283
- IV. No-Hire or No-Switching Restrictions ..... 284
- V. Damages ..... 285
  
- CHAPTER 15. OTHER NONINTERFERENCE CLAUSES..... 289
  - I. Noninterference With Supplier Provisions..... 290
  - II. Provisions Protecting Referral Sources ..... 294
  
- CHAPTER 16. TRAINING-RELATED AGREEMENTS..... 299
  - I. Restriction or Irreparable-Harm-Oriented Training Agreements ..... 300
  - II. Repayment or Damages-Oriented Training Agreements ..... 302
  
- CHAPTER 17. OPTIONAL ENFORCEMENT CONTRACTS ..... 309
  - I. Types of Optional Enforcement Contracts ..... 309
  - II. Practical Enforcement Considerations ..... 312
  - III. Potential Attacks Against OECs..... 312
  
- CHAPTER 18. FORFEITURE CLAUSES ..... 317
  - I. Different Types of Forfeiture Provisions..... 318
  - II. The Reasonableness Test—Variations in State Law ..... 321
    - A. States Imposing No Reasonableness Restrictions..... 321
    - B. A Modified or Less Demanding Reasonableness Test ... 322
    - C. States Imposing Normal State Statutory or Reasonableness Restrictions ..... 324
    - D. The Employee Choice Doctrine—New York ..... 328
  - III. The Nature of the Remedy Created..... 330
    - A. Liquidated Damages Characterization ..... 330
    - B. Combining Forfeiture with Injunctive Relief ..... 334
  - IV. Special Employee Categories..... 336
    - A. Attorneys ..... 336
    - B. Physicians ..... 339
  - V. Types of Benefits Subject to Forfeiture ..... 341
    - A. Wages or Not..... 341
    - B. Pension Benefits ..... 343
    - C. Deferred Compensation and Top-Hat Plans..... 344
    - D. Stock Options..... 344

CHAPTER 19. EQUITY-BASED CLAWBACK CLAUSES .....	345
I. What is a Clawback? — The <i>IBM v. Bajorek</i> Decision.....	346
II. Drafting Considerations .....	352
III. International Law on Clawbacks.....	356
CHAPTER 20. ERISA-COVERED PLANS .....	357
I. ERISA Preemption Generally.....	358
II. “Top-Hat” Plans.....	361
A. “Top-Hat” Plan Coverage Under ERISA.....	361
B. Deferential Standard for “Top-Hat” Plan Administrator Decisions .....	362
III. Severance Plans .....	365
A. Severance Plans Generally .....	365
B. Severance Plans as “Top-Hat” ERISA Plans .....	367
IV. Stock Option Plans.....	368
V. Drafting Suggestions Concerning Plan Terms.....	368
A. Venue Designation Clause .....	368
B. ERISA-Compliant Procedures Concerning Benefits Claims and Appeals.....	369
C. Internal Revenue Code Section 409A Compliance .....	370
CHAPTER 21. GARDEN LEAVE COVENANTS .....	373
I. What Is a Garden Leave Clause? .....	373
II. U.S. Case Law Considering Garden Leave Provisions.....	375
III. Drafting Considerations .....	377
A. Amount of Notice Required .....	377
B. The Nature of the Former Employee’s New Employment.....	378
C. Optional Garden Leave Covenants.....	379
D. Full Salary and Benefits.....	380
E. Services for the Employer During the Garden Leave ...	380
IV. Consulting/Independent Contractor Agreement Substitute ...	381
V. Section 409A and Other Benefit Considerations.....	382
CHAPTER 22. SEVERANCE AND SETTLEMENT AGREEMENTS .....	385
I. Are Severance Context Agreements Different? .....	386
II. State Law Variations on Enforceability.....	388
A. California .....	388
B. Oregon .....	389
C. Texas .....	390

D.	Other States .....	392
III.	Payment of Consideration .....	392
A.	Structuring Payments .....	392
B.	The <i>Olander</i> Decision and Tenderback Language .....	394
IV.	Enforcement Mechanisms .....	395
A.	Injunctive Relief.....	395
B.	Clawback Provisions .....	396
C.	Stop-Payment Provisions .....	397
D.	Balloon Payment or Condition Precedent .....	398
E.	ERISA Plan Benefits .....	400
CHAPTER 23. SPECIAL TOLLING AND SURVIVAL CLAUSES.....		401
I.	The Mootness Problem.....	402
II.	Alternative Solutions.....	402
III.	Equitable Extension.....	402
IV.	Tolling Clauses.....	404
V.	Survival Clauses .....	407
CHAPTER 24. CLOSING CLAUSES.....		409
I.	The Integration, Severability, and Survival Clauses .....	409
II.	Written Modification/Waiver Clause .....	415
III.	Reformation.....	418
IV.	Assignability.....	420
V.	Common Law and Statutory Rights Preserved .....	422
VI.	Notice and Opportunity to Cure Clause.....	422
VII.	Survival Despite Changes in Employee’s Position .....	423
VIII.	Preservation of Right to Express Opinion Regarding the Agreement.....	424
IX.	Attorney’s Fees .....	425
X.	Choice of Law and Venue.....	425
XI.	Alternative Dispute Resolution or Arbitration.....	425
CHAPTER 25. REMEDY CLAUSES .....		427
I.	Stipulation Regarding Irreparable Harm and Necessity of Injunctive Relief.....	427
II.	Bond Requirement.....	430
III.	Liquidated Damages.....	431
IV.	Attorneys’ Fees.....	435
CHAPTER 26. INTERNATIONAL RESTRICTIVE COVENANTS .....		439
I.	Drafting Considerations .....	440
II.	Choice and Conflict of Laws .....	442
A.	Importance of Choice of Law Outside the U.S.....	442

B.	Possible Enforcement of Global Noncompetes in U.S. Courts .....	447
III.	Scope and Enforceability of Noncompetes and Other Restrictive Covenants .....	449
IV.	“Garden Leave” and Extra Consideration.....	450
V.	Choice of Forum .....	450
A.	Arbitration .....	451
VI.	Trade Secrets .....	452
A.	International Protection Under NAFTA and TRIPS.....	452
VII.	Other Intellectual Property .....	453
VIII.	Blue Penciling .....	453
IX.	Country-Specific Laws .....	454
A.	European Union .....	454
1.	France .....	454
2.	Germany .....	456
3.	Italy.....	458
4.	United Kingdom .....	461
B.	Asia.....	464
1.	China.....	464
2.	Japan.....	467
C.	Other Countries.....	468
1.	Canada .....	468
2.	India .....	470
3.	Mexico.....	472
4.	Additional Countries.....	473
X.	Conclusion .....	473
CHAPTER 27. THE ENFORCEMENT QUESTIONS CHECKLIST .....		475
I.	BASIC CONTRACT AND FACTUAL BACKGROUND QUESTIONS .....	480
A.	Was there any discussion with the former employee about his or her going to a competitor at the time he/she left? .....	480
B.	Has any agreement been made with the employee related to his departure such as a severance agreement that might impact the noncompete agreement? .....	480
C.	Is there any evidence of wrongdoing by the employee prior to the departure?.....	481
D.	Is there a signed contract or other form of agreement that is documented in a manner admissible in court as evidence? .....	483
E.	Is the enforcing party an actual signatory to the agreement, or has it “inherited” the agreement	

	because of merger, acquisition, or other corporate transaction? .....	483
F.	Was the contract supported by adequate consideration or signed under circumstances that are adequate to form a binding agreement? .....	484
G.	Was any other document signed during employment that might affect the enforceability of the agreement? ...	485
H.	Does the company have policy statements (e.g., code of conduct or employee handbook provisions) that are consistent with the purpose of the restrictions at issue?..	485
I.	What state law options are available? .....	485
J.	What venue options are available? .....	486
K.	Does the controlling state law allow for reformation or blue penciling of agreements to enforce them? If so, under what standard?.....	487
L.	Did the employee change positions after signing the agreement? If so, is the agreement still applicable based upon its language? .....	487
M.	Did the employee resign or was he/she terminated? .....	488
N.	What is known about the employee’s new position, and how directly does it violate the contract’s restrictions? .....	488
O.	Is the justification for the restriction implicated in a way that can be identified? Stated another way, how is the competitor going to gain an unfair competitive advantage?.....	489
P.	Has a demand letter been sent? If so, were letters sent to the former employee and the new employer, or just the employee? .....	489
Q.	What timing issues are presented if enforcement is pursued at this time? .....	490
II.	CONFIDENTIAL INFORMATION FOUNDATION QUESTIONS.....	490
A.	If confidential information is a significant part of the justification for the agreement and enforcement action being taken, what is the lifespan of the information’s utility (e.g., at what point is it stale)?.....	490
B.	What evidence is there supporting the confidential nature of the information at issue?.....	491
C.	Why is a simple confidentiality agreement standing alone not enough under the circumstances?.....	491
D.	Is an expert witness going to be necessary to explain	

	the confidential nature of the information in the industry and how it can be used for unfair competitive advantage? .....	492
III.	CUSTOMER GOODWILL AND CUSTOMER NONSOLICITATION QUESTIONS.....	493
	A. How is the customer or other goodwill interest at issue defined? .....	493
	B. Is there sufficient evidence of customer contact or interaction to support a customer goodwill argument? If not, what is the justification for the restriction? .....	493
	C. Did the employee bring customers to the company's business with him or her, or were the customers developed while he or she was at the company? .....	493
	D. Is there a reasonable expectation of continued business from the customer or customers at issue? .....	494
	E. How will the company prove up the reasonableness of the specified time limitations? .....	494
	F. Is the level of activity prohibited (e.g., solicitation only, servicing, communicating about business) legitimate and sustainable as a restriction under applicable state law? .....	495
	G. Is the state the one that requires a geographic limitation or will a customer-specific restriction substitute for a geographic limitation? .....	495
	H. Is there evidence that customer solicitation is already occurring or is it just threatened? .....	495
	I. Is the evidence of solicitation activity something that can be proven without creating significant collateral business and customer goodwill damage? .....	495
IV.	SPECIALIZED TRAINING QUESTIONS.....	496
	A. Is the training special and unique or more in the nature of general experience or trade skill development?.....	496
	B. How long has it been since the training was provided?..	496
	C. Can the cost of the training be identified?.....	497
V.	TRADITIONAL NONCOMPETE CLAUSE QUESTIONS .....	497
	A. Does the clause have the kind of boundaries required under state law?.....	497

- B. What evidence (witnesses, documents, etc.) can be presented to establish that boundaries set in the agreement are reasonable? ..... 497
- C. If there is a true noncompete clause in addition to a nonsolicitation of customers/prospects provision, why is it necessary/reasonable to have both restrictions?..... 498
- D. Is there actual lost business? What, when, why, and how much is at stake? ..... 498
- E. Is there other means by which the ex-employee can earn a living? What evidence can be presented to show that the hardship to the former employee is not so significant that enforcement should be denied? ..... 498

VI. QUESTIONS ABOUT NONSOLICITATION OF EMPLOYEES..... 499

- A. Are the terms of the employee nonsolicitation clause enforceable under state law? ..... 499
- B. What evidence of a violation or threatened violation is present? ..... 499
- C. Was the targeted employee already leaving or going to leave? ..... 499

VII. QUESTIONS REGARDING POTENTIAL DEFENSIVE ISSUES..... 500

- A. Is the company in compliance with all of its obligations to the former employee? Or, does the company come to the court with “unclean hands”?..... 500
- B. What is the company doing to save the customer relationships and mitigate harm? ..... 500
- C. What is the company’s track record regarding enforcement of its agreements? ..... 500
- D. What is the company’s track record regarding hiring from competitors? Specifically, when the company hired the employee who is now the potential target, if that person had an agreement with his/her prior employer, what did the company do to address this fact at the time of hiring? .....501
- E. What position has the competitor taken on the use of similar contracts in its own business? Has the ex-employee agreed to a similar agreement with the new employer/competitor? .....501

VIII. QUESTIONS ABOUT LITIGATION PROCEDURE AND STRATEGY..... 502

A.	What is the goal of the lawsuit? What is the anticipated stopping point for the litigation? How is a “win” going to be defined? .....	502
B.	Who should be sued? Who will be the defendant(s)? .....	502
C.	Where should suit be brought? .....	503
D.	What procedures should be used?.....	504
1.	Pre-lawsuit discovery (e.g., petition to take deposition).....	504
2.	Declaratory judgment proceeding .....	504
3.	Temporary restraining order .....	504
4.	Preliminary injunction .....	505
5.	Permanent injunction and damages.....	505
6.	Motion for expedited discovery.....	505
7.	Writ of sequestration/replevin (seizure and return of property).....	506
8.	Motion to seal proceedings .....	506
9.	Protective orders.....	506
10.	Order to preserve evidence .....	507
E.	What evidentiary standard must be met?.....	507
F.	What bonding requirements must be met?.....	507
G.	Are there any special service and service-related timing issues? .....	508
H.	What is the discovery plan going to be? .....	508
I.	Who will bear the attorney’s fees, and what leverage will this create?.....	509
IX.	QUESTIONS ABOUT REMEDIES.....	509
A.	Is injunctive relief going to be a primary remedy or goal? .....	509
B.	Is there a basis for a viable damages claim based on actual losses?.....	510
C.	Is there a liquidated damages clause or forfeiture provision that should be taken into consideration?.....	510
D.	What alternative theories for damages might be available? .....	511
E.	Are there any special remedial schemes created by applicable state law for noncompete contracts? .....	512
	Exhibit 27.1. The Enforcement Questions Checklist .....	512

