Enforcing Non-Competes

Ten lessons from the litigator

By Carey A. DeWitt

This article summarizes 10 of the most significant lessons I have learned in litigating cases to enforce restrictions on competition (non-competes). Most states, including Michigan, allow enforcement of non-competes if they are reasonable as to duration, geography, and line of work, and also protect a legitimate business interest. If an employer makes the decision to enter into a non-compete (there are serious trade secret, recruiting, and other considerations playing a role in this decision), it should consider the following 10 guidelines to improve the odds in enforcement:

Draft Strong Non-Competes

The non-compete should be worded reasonably strongly in favor of your client. Under the court's equitable powers, a judge in Michigan and many other states may reduce (at least to a degree) the scope of a non-compete so that having a reasonably strong, albeit entirely defensible, non-compete in place may well allow any court-reduced, or "blue penciled," non-compete to be more effective when enforced. Such reductions in scope may affect geography, duration, or the nature of the competitive activity prohibited. The process of injunction is often at least partially a human process in which the judge attempts to fashion a "fair" remedy. Thus, starting the process with reasonably assertive non-compete provisions in place often allows the employer to be in a stronger position. The employer should also insert a Michigan choice of law and forum clause in the agreement, assuming there is a sufficient Michigan connection.

Extend Period of Non-Compete for the Period of Violation

Include a clause in the non-compete extending the effective date of the non-compete for the period of any non-compliance. This creates an express understanding on the part of the offending employee that misconduct, whether concealed or otherwise, amounting to a violation of the non-compete will not be rewarded in the form of a court's concluding that the non-compete's termination date is the same as it would have been otherwise. This provision allows the employer to take greater advantage of cases such as *Therma-Tool v Borzym*,[1] in which courts have found that extending the term of the non-compete for the period of non-compliance may be a remedy available to the court (but not ordered there). Including an extension clause in the employment agreement would make application of this remedy more likely.

Adopt Non-Competes in Extensions or Amendments

A subsequent agreement extending or modifying the terms of a previously executed agreement, for example, a renewed employment agreement, will often be attacked on the basis that it "eliminates" the pre-existing non-compete. All subsequently executed documents must be examined to ensure that they continue the non-compete provision. One would think that it would be enough to include a provision specifically extending the non-compete beyond termination of employment, but enforcement litigation sometimes raises the issue of whether the non-compete survived the execution of a subsequent agreement "continuing" the employment of the employee. For this reason, subsequent agreements should be reviewed by the employer's legal department or counsel before execution. The employer may wish to add to the non-compete a clause stating that the non-compete can only be modified or waived by a specific writing signed by a designated person or officer.

Protect Confidential Information

The employer's sincere and repeated efforts to police the confidentiality of its proprietary information are a major advantage in enforcing non-competes. Because protection against loss or misuse of confidential information is a legitimate business interest, it is often an excellent rationale for a non-compete.[2] Non-competes that lack a legitimate business interest are generally considered a "naked restraint of competition" and are unenforceable under anti-trust law. Thus it is difficult to overemphasize the importance of confidentiality precautions.

The employer can demonstrate that measures have been taken to protect its confidential information by doing the following:

a) Training employees on the importance of confidentiality and the techniques to maintain it

b) Including confidentiality clauses in documents given to customers and suppliers

c) Stamping documents containing confidential information as "confidential"

d) Having a "one-for-one exchange" policy for certain documents, especially sensitive documents such as customer lists (for example, a new customer list may not be obtained until the old list is returned)

e) Securing written non-disclosure agreements with employees that limit the use and disclosure of particularly confidential information, including trade secrets and proprietary information

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f) Limiting access to some documents to certain categories of employees with a need to know

g) Not providing confidential information to the public by plant inspections, media releases, or other means

Enforcing these procedures allows the employer to better argue that truly confidential information is "inevitably disclosed" to a competitor when an employee violates a non-compete.[3]

Comply with an Employee's Employment Agreement or Company Policies upon Termination

Common human resource concerns relating to the proper supervision, discipline, and termination of an employee are particularly important in a non-compete situation because it is common for the offending employee to claim to have been forced (constructively or actually discharged) from employment by some misconduct on the part of the employer. While it is a very good argument that this issue is irrelevant to enforcement of the non-compete, the employee usually claims to have had no choice but to leave and to be currently just attempting to earn a living.

In addition, the employee may argue that the employer's actions were a breach of the employment relationship, purportedly releasing the employee from any obligations. Thus, knowledgeable human resource management, to make sure that any misunderstandings are not the result of management's actions, may help in the defense of a claim of constructive or actual discharge in the non-compete case. Of course, it is a significant advantage to have a provision in the non-compete that the non-compete is effective regardless of whether the employee is terminated or resigns voluntarily or involuntarily, for cause or otherwise.

Show Consistent Enforcement

The employer's previous efforts to hold other employees accountable for suspected or actual non-compete violations are often scrutinized to determine the urgency and validity of the employer's current claims. Lax enforcement in the past does not aid a current claim.

Take Prompt Enforcement Action

Similarly, the promptness of the employer's response to the current violation (and other violations) sends a powerful message of whether an emergency justifying preliminary injunctive relief is presented.

Show Inevitability of Disclosure or Use

Proving inevitable disclosure or use requires well thought-out, persuasive testimony with examples showing how the former employee, working for a competitor with knowledge of the employer's confidential information, must disclose or use it in the new business. For example, how could the employer's costs and prices not be considered when prices are set (or influenced) by a former employee working for a competitor?

Submit Proof of Access

Submitting as evidence selected redacted documents (under protective order, if possible) that prove that the offending employee had exposure or access to the confidential information while employed can be highly persuasive to the judge.

Search for Electronic Evidence

Contemporaneous electronic documentation is important in proving the facts. The employer's hard drive often contains e-mails or records of file downloads that contradict the employee's excuses for non-compliance or claims of innocence. For example, computer files (which can be "undeleted") often reveal the offending employee's plans for departure and exposure to, or appropriation of, confidential data.

Employers and their counsel will dramatically improve their chances in the enforcement of non-competes by heeding these suggestions. ✦

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FOOTNOTES

1. 227 Mich App 366, 575 NW2d 334 (1998). See also *Superior Consultant Company v Bailey*, 2000 US Dist LEXIS 13051 (ED Mich 2000).
2. See *Superior Consultant Company, Inc v Walling*, 851 F Supp 839, 847 (ED Mich 1994).
3. See *Lowery Computer Products v Head*, 984 F Supp 1111, 1117 (ED Mich 1997); see also *Pepsico, Inc v Redmond*, 54 F3d 1262 (CA 7, 1995).