Restrictive Measures in Employment Contracts

The use of covenants to protect trade secrets, customer goodwill and confidential information

Virtual Round Table Series
Employment Law Working Group 2017

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Every company has information, customer goodwill, and other valuable assets that are considered both integral and invaluable to its success. Limiting the use of this information by employees and protecting goodwill after the term of their employment contract can be vital to the protection of a market position.

An accepted method of providing this protection is to include restrictive covenants in employment contracts, which are designed to prevent certain information being used by competitors, while providing for damages should those agreements be breached. They should be clearly distinguishable from the obligation of loyalty, which is inherent to any employment contract.

The way restrictive covenants are applied differs between jurisdiction. For companies with operations in multiple locations, understanding this is of critical importance. It is also important to acknowledge that restrictive covenants will only be enforceable if they are deemed to be reasonable in terms of their scope and the fairness of the restrictions they place upon an employee.

With this in mind, IR Global brought six members of its Employment Law Group together to discuss restrictive covenants. The aim of the feature is to give members and their clients valuable insight into how these protections are applied across a range of jurisdictions. We also assess the enforceability of contracts containing restrictive covenants, options in the event of a breach of covenant and best practices to avoid any potential problems before they occur.

The following discussion involves IR Global members from the United States – New York and Nevada, France, England, Mexico and Australia.

The View from IR

Ross Nicholls

BUSINESS DEVELOPMENT DIRECTOR

Our Virtual Series publications bring together a number of the network's members to discuss a different practice area-related topic. The participants share their expertise and offer a unique perspective from the jurisdiction they operate in.

This initiative highlights the emphasis we place on collaboration within the IR Global community and the need for effective knowledge sharing.

Each discussion features just one representative per jurisdiction, with the subject matter chosen by the steering committee of the relevant working group. The goal is to provide insight into challenges and opportunities identified by specialist practitioners.

We firmly believe the power of a global network comes from sharing ideas and expertise, enabling our members to better serve their clients' international needs.

US - NEVADA

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Laura Thalacker has practiced management-side employment law in Nevada for 23 years. Prior to founding Hartwell Thalacker, Ltd., she worked for over 17 years at Nevada's then-largest law firm, where she was a partner in the firm's Litigation Department. Laura focuses on representing employers in Nevada, throughout the U.S., and worldwide in employment law and litigation matters.

Laura is a certified senior professional in human resources. Using her unique combination of practical human resources experience and in-depth legal knowledge, Laura takes a pro-active, preventative and strategic approach to employment issues. Focusing on legal compliance and litigation prevention.

Laura represents employers in administrative proceedings and in employment-related litigation in Nevada state and federal courts. She has represented employers in a variety of cases including matters involving trade secrets, non-competes, wrongful termination, harassment and discrimination, leaves of absence, breach of contract, and wage and hour violations.

Laura formerly Chaired the State Bar of Nevada's Labor and Employment Section. She is currently a member of IR Global's Labour and Employment Steering Committee.

US - NEW YORK

Kara M. Maciel

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Kara M. Maciel is a founding partner of Conn Maciel Carey and Chair of the firm's national Labor Employment Practice Group. She focuses her practice on representing employers in all aspects of the employment relationship.

Ms. Maciel works to create workplace solutions for her clients across all industries. She defends employers in litigation at both the federal and state levels, including matters related to ADA, FLSA, FMLA, Title VII, and affirmative action/OFCCP regulations. She advises clients regarding the protection of trade secrets and the misappropriation of confidential or proprietary information, both defending employers and pursuing enforcement against former employees.

Ms. Maciel pays special attention to the issues facing companies in the hospitality (including hotel owners and managers, resorts, restaurants, spas, country clubs, golf clubs, and fitness clubs); retail; grocery; food and dairy distribution; healthcare; trade association; and non-profit sectors.

Ms. Maciel is a popular speaker at conferences and events across the country and writes extensively on issues related to ADA accessibility and wage hour compliance.

FRANCE

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Admitted to the Bar in 1997, Lionel Paraire founded Galion in 2008, a boutique law firm focused on labour and employment law.

Lionel has lectured at the University of Paris XII in Labour Law and European Labour Law. He is currently Senior lecturer at the University of Montpellier I (DJCE and Certificate of Special Studies in Labour Law), where he teaches employment litigation. He is a member of various national and international organisations including Avosial (Association of French Employment Lawyers Association), EELA (European Employment Lawyers Association) and IBA (International Bar Association). He is an active member of IR Global.

Lionel has developed an acknowledged expertise in the area of individual employment relations and (high risk) litigation and dispute resolution. He regularly assists companies with restructuring and the labour and employment law aspects of corporate transactions, extending his activity towards Alternative Dispute Resolution (ADR), notably as a mediator.

Lionel speaks French, English, Spanish and German.

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Shilpen has a dual practice focused on dispute resolution and employment law. His expertise as a litigator is in high-value commercial dispute resolution and contentious corporate matters, often involving an international element. He has conducted a number of reported cases and cross-border disputes. Shilpen also advises and represents employers, employees and professional clients in all aspects of employment law. He has particular expertise in acting for senior executives, self-employed professionals and company directors in connection with their entire employment needs, including claims in the Employment Tribunal and the High Court.

Shilpen provides day-to-day employment law and practical troubleshooting advice to the senior management of high profile corporate clients, including the London arm of a leading multi-billion dollar US private equity house and one of the world's foremost and best recognised designer fashion brands.

Gunnercooke is a full service corporate and commercial law firm comprised solely of senior lawyers. There are 100 partners, operating nationally and internationally via offices in London and Manchester.

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Edmundo founded Escobar y Gorostieta in 1993 as a response to the needs of different customers to have comprehensive advice provided by experts in the various branches of law and disciplines related to the business.

It has grown into prestigious Mexican firm known for providing a high quality of service attached to professional ethics.

Based in Mexico City, the firm specialises in labor and employment, corporate and foreign investment, providing comprehensive advice to domestic and foreign investors operating in Mexico, assessing the legal affairs of foreigners in Mexico and their operations abroad.

Edmundo prides himself on responding immediately to legislative, social, commercial and professional changes both in Mexico and abroad, helping to maintain a flexibility that is reflected in his services.

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Jeremy Cousins deals with a wide range of workplace relations and employment matters including advising clients on industrial relations strategy, industrial disputes, restructuring, mergers and acquisitions, defending claims under the Fair Work Act 2009 (Cth) and under both state and federal discrimination legislation.

He assists clients with workplace investigations, performance and injury management issues, acts as an advocate in conciliation, tribunal, commission and court proceedings and has particular experience in the prosecution of claims arising out of breaches of confidentiality and restraint of trade matters.

Jeremy is an updating author of Thomson's Lawbook, The Laws of Australia Labour Law chapters on The Australian Industrial Relations System and Awards and Agreements and the Work chapter in the Human Rights section. He is also a Certified Professional with the Australian Human Resources Institute.

QUESTION 1

Are there specific statutes in place relating to restrictive covenants, or does your jurisdiction rely on common law? How does Federal and State law deal differently with this – any examples?

France –Lionel Paraire (LP) In France, the Labour Code does not contain any provision about restrictive covenants. They are only ruled by case law and the French Supreme Court has set the conditions of validity and enforcement of such clauses.

There are three major restrictive covenants applicable in France, which are:

- non-compete clause: Prohibits an employee from competing with their employer for a certain period of time after leaving of their job. They are often disfavored by courts, but may be upheld if they are narrowly tailored to protect the employer's legitimate interests.
- non-solicitation clause: Prohibits an employee from soliciting a former employee and/or customer. Because non-solicitation provisions are less intrusive than non-competition clauses, courts are generally more inclined to enforce them.
- confidentiality clause: Requires from an employee during and after their employment to keep confidential trade secret and/or any other confidential information belonging to the employer.

UK –Shilpen Savani (SS) English law in this area is not generally governed by statute. There are some statutory provisions, but on the whole we use the common law and case authorities, without the duality of federal and state law. There is a long and extensive body of case law in this area.

Australia –Jeremy Cousins (JC) In Australia, restrictive covenants are generally governed by the common law.

Australia is a federation of six states (New South Wales, Queensland, South Australia, Tasmania, Victoria and Western Australia) and there are also two mainland territories (Northern Territory and Australian Capital Territory). There can be some differences in the way the common law is applied but there is significant consistency with matters relating to restrictive covenants.

The State of New South Wales is slightly different as it has specific legislation which modifies the way the common law is interpreted in relation to restrictive covenants, making it slightly easier for employers to enforce them where New South Wales law applies.

US –Kara M. Maciel (KM) From a US perspective, employers and employees are governed by state law. There is no Federal statute that governs restrictive covenants, although there is one new Federal law called the Defense of Trade Secrets Act that only impacts employers to the extent that they seek to recover attorneys' fees when making a Federal claim, if they have certain protections included in a restrictive covenant. Generally, though, we rely on State law.

In New York, even though there is no state statute, we are governed by state case law. There are some industries that are regulated, such as financial services and attorneys.

US –Laura J. Thalacker (LJT) Nevada definitely has a different legal landscape than New York. Non-competes in Nevada are governed by Nevada Revised Statute, NRS 613.200. This law permits employers to enforce an agreement with an employee which, upon termination of the employment, prohibits them from entering a similar vocation in competition with, or becoming employed by a competitor of, the employer. Under NRS 613.200, non-competition agreements must be supported by valuable consideration and must be reasonable in scope and duration.

In addition, it is important to note that besides allowing post-employment restrictive covenants, NRS 613.200 also allows employers to enter into agreements prohibiting employees, after termination of employment, from disclosing 'trade secrets, business methods, lists of customers, secret formulas or processes or confidential information learned or obtained during the course of employment.'

We have a number of reported decisions by the Nevada Supreme Court interpreting and applying NRS 613.200. There is no set formula for whether a non-compete is valid or invalid and courts will look at many different factors.

The ability to have non-competes in Nevada has been important for business here. In Nevada, we are right next door to California which generally bars non-competes unless they are connected to the sale of a business. In my experience, the fact that non-competes are enforceable in Nevada has been considered by some West Coast employers when deciding to set up businesses in Nevada.

Regarding difference between federal law and state law for non-competes, in the U.S., non-competes are mostly a state law issue. When federal courts in Nevada have had an opportunity to interpret and apply NRS 613.200, they follow Nevada law and have been generally just as willing as Nevada state court judges to enforce restrictions.

UK –SS One issue I often come across, especially when advising Americans working in the financial sector here in London, centres around remuneration during a restricted period. What is the general position for remuneration during the restrictive period in the US? In England you can have post-termination restrictions without paying the employee for that period.

US –KM In New York, any restrictive covenants that are included in an initial employment agreement must have consideration to be enforceable. If you are terminating an employee and including a restrictive covenant for the first time in a severance agreement, there must be some kind of compensation paid to the employee. It's unclear under New York law whether that's a salary continuation or a lump sum payment, but there needs to be something of financial value.

Australia –JC In Australia, it is not necessary to pay the employee during the period of restriction, but where such a payment is made this may be used as a factor to influence the court that the restraint is reasonable. This could be more likely to lead to the restraint being enforced against the employee (albeit there are still numerous other matters an employer must satisfy).

UK –SS What if the employee is just paid contractual notice – is that enough?

US –KM There is no quantity prescribed, just a question about whether that consideration is sufficient, dependant on various factors decided on a case-by-case basis.

US –LJT In Nevada, you can apply a restriction without needing to pay the person their salary during that post-employment period.

One of the factors in determining the reasonableness of a non-compete is analysis of the hardship it imposes on an employee. We have certainly enforced non-competes where there is no payment to employees, however, a court is going to be more likely to enforce a non-compete if an employee is paid for a period of time.

Australia –JC Under Australian law, restrictive covenants must (in most cases) be underpinned by consideration at the time the contract is formed and the obligations are entered into. Some benefit must be given to the employee in exchange for them entering into the obligations.

An employer may be unable to enforce a restrictive covenant if the employer's own breach has resulted in the ending of employment. The specific terms of the relevant restraint will need to be examined to determine whether or not the restriction remains effective after the employer's breach.

US –KM In New York, there is an argument that if an employee is involuntarily terminated without cause, and they are subject to a non-compete, then the non-compete is not enforceable against the employee. This argument is premised on the theory that the employer is not interested in restricting the employee from working for a competitor if the employee was fired in the first place.

IR Members pictured at the IR 'On the Road' 2017 Conference in Singapore.

US –LJT We have had that point raised by a plaintiffs' lawyers before, but it's not a factor in Nevada. It doesn't matter who terminated and why, although, depending on what judge you have, it might be one of the equities that they consider.

UK –SS That does feature in an English context but mainly around the context of repudiation. If the employer's conduct is so reprehensible and far removed from the purposes of the employment contract, it can provide an opening for the employee to accept repudiation of the contract, thus destroying the contract and freeing the employee from all their restrictive covenants.

US –LJT Are you able to get around that by drafting language in the contract that says this provision survives regardless of any alleged breach of the agreement by the employer?

UK –SS A well drafted contract will make it clear that, howsoever the employment ends, the restriction will survive, but, as with any contract, it depends on how grave the breach is and how onerous or reasonable the restrictions are. As a matter of best practice, we would always recommend putting in a clause in the contract to cover that eventuality.

Mexico –Edmundo Escobar (EE) Restrictive covenants in Mexico are generally unenforceable, but there are ways to do so with the correct drafting language. In any termination relationship, it is fundamental to lay out the restrictions in a way that the employee can't use that information for unfair competition activities against a former employer. If the claim is dealt with by a civil court rather than a labour court, then this is the only way to enforce, because there are constitutional dispositions in Mexico that make restrictive covenants unenforceable in the labour courts.

That's the way we do it and that is common practice with our clients. We suggest that restrictive covenants are drafted prior to anything else and then a lump sum is assigned to any breach, in order to make it enforceable.

UK –SS Are there any relevant statutes that might apply in Mexico?

Mexico –EE Labour law is Federal, as is non-compete law, but there is nothing besides the constitutional dispositions of free trade and free work as interpreted by the Supreme Court. We have specific dispositions for confidentiality, but they are not clear in their applicability.

QUESTION 2

What main factors are relevant in determining whether a restrictive covenant will be enforced in your jurisdiction?

UK –SS In the simplest of terms, the starting point with restrictive covenants in the English employment context is that they are void because they are in restraint of trade. They are, however, permitted to the extent of protecting the legitimate proprietary interests of an employer to a degree of protection that is no more than is reasonable in the circumstances. The general rule is not to overdo it and to keep the covenants reasonable and close to the real attributes and assets of the business in question.

Australia –JC In Australia, the position is similar to that described by Shilpen in the context of English law. The starting point is that contractual restraints of trade are presumed to be void. This presumption can be rebutted and the restraint will be enforceable where the restraint sets out no more than what is reasonable to protect the legitimate business interests of the employer. The validity of the restraint is to be judged at the date when the restraints are agreed to (typically the date of the employment contract). The onus of proving that the restraint is justified and reasonable will be on the employer.

US –LJT In Nevada, courts look at the specific geographic restriction, plus the duration and substantive scope of the restriction. The geographic restriction must be based on the employer's protectable interests and depends on such factors as the location of the employer's operations and customers. What is reasonable in duration often depends on the type of industry involved and other specific facts. In a fast-changing industry, for example, maybe only a six-month duration would be considered reasonable. But, in other industries, the Nevada Supreme Court has enforced agreements that last for up to two years.

UK –SS It's all about context. When you are advising clients on geographic restrictions, they frequently get a little carried away and want to cover the whole world just because they can. But it comes back to the same principles of, where does the business function and does it genuinely have an association with the regions you are trying to protect? Unless there is a genuine international aspect to the business, I often advise against taking things too far.

In my experience, it's much more effective to use more personalised restrictions in terms of the clients the individual employee deals with, and the clients they have had contact with in the period leading to the termination date. This overcomes the geographical aspect because it links specifically to what this particular employee did during their time in employment.

Australia –JC I would agree with that. The narrower the scope of the restrictions, the more likely they will be enforced.

US –LJT That's an issue that has been litigated in Nevada recent years. At least one court has ruled that if a company has operations nationwide, a non-compete without a geographic restriction may be reasonable if the rest of the restrictive covenant is sufficiently limited in scope.

UK –SS It wouldn't be a prerequisite in England to have a geographical remit, but there is nothing to say you couldn't blend the two. If a client, perhaps a global entity or an international bank, was concerned it would be sensible to link the two, so you could restrict the employee to parties or clients they have dealt with within the relevant jurisdictions.

Australia –JC In Australia, it is common to see a geographical non-compete clause combined with more targeted restrictions relating to connections with clients or customers. The geographical non-compete clauses commonly seek to apply across too broad an area and are therefore enforceable.

US –KM In New York, a company does not have to include a geographical restriction for the non-compete to be enforceable, as long as the overall contract has been evaluated for reasonableness. If the covenant is deemed unreasonable, then a New York court will modify it via blue pencilling.

UK –SS In England yes, conceptually, it can be done, but it's living dangerously because the courts don't like to blue pencil, particularly if there is a sophisticated entity involved. They will say the party should be able to draft a restriction that can either be upheld or not upheld, they don't want to reinterpret it for them.

We try to have severability clauses in our contracts which expressly state that if one or another of the clauses are not enforceable it doesn't mean that the entire restrictive covenants section falls away.

Australia –JC The approach of using cascading clauses is common in Australia, although the courts are becoming critical of the over-use of this technique. Determining the enforceable boundaries of a restraint is more 'art' than science. Because of the uncertainty, it has been common to use cascading clauses so that if one restraint is found to be unreasonable, a lesser restraint may be imposed.

The key to this approach is to use a small number of combinations and permutations, since the courts have rejected the technique where a large number of combinations and permutations occur and do not want to encourage the drafting of unreasonably wide restraints with a fall back to a reasonable position (by severing the wider parts of the restraint). The courts recognise that restraints, even unenforceable ones, can effectively work to restrain employees because of the uncertainty about the likelihood of unenforceability. In New South Wales, cascading clauses are not used so much because of the ability of the court to impose a lesser restraint in accordance with the powers given to it by legislation.

Mexico –EE In Mexico, if a covenant is found to be invalid by any court, the plaintiff employer will not be entitled to claim a breach and no damages will be payable.

IR Members pictured at the IR 'On the Road' 2017 Conference in Singapore.

US –LJT In Nevada, up until July 2016, the conventional wisdom was that non-competes were modifiable and could be blue pencilled or reformed. You could go to court with a non-compete and indicate a willingness to amend it, allowing the judge to decide if they want to reform the agreement.

In July 2016, the Nevada Supreme Court issued a ruling saying that overly broad non-competes were no longer valid and courts were prohibited from modifying them. They cited precedent involving principles of contract interpretation and also went into a lengthy public policy discussion about how employers should not be allowed to intentionally include overly broad restrictions that create a fear factor/deterrent effect with employees. This was deemed to be providing the employer with an unfair advantage. Based on these and other considerations, the Nevada Supreme Court ruled that overly broad non-competes are invalid and may not be 'blue pencilled' or modified by a court.

Mexico –EE There is no redrafting allowed by Mexican courts. We also include severability clauses in contracts to make sure the unenforceable clauses are the only ones affected, keeping the rest of the contract valid.

US –LJT I think you can tell by my comments that Nevada law is fairly fluid in this area and we have had a number of decisions that are continually modifying the standards. What is the situation in other jurisdictions? Is the law fluid or established?

UK –SS In the English context, it's an ever changing area and I think in many ways this is necessarily so, because of the changing nature and requirements of businesses. As far as I know we have never tried to codify it or to make it subject to statute, so lawyers are always watching new case developments to see if there is a different approach or a change of mood in the higher courts. At present we are in a pro-contract phase, where the English courts are tending to uphold restrictions, subject to these being reasonable. That is the prevailing view of things.

Australia –JC Australian law is also fluid and changing. The types of business interest which can be protected remains open and the influence of technology and competing foreign jurisdictional issues in a globalised world are likely to continue to raise new issues.

US –KM New York is the same, as enforcement is really dependant on the circumstances of the employer and the employee, the specific drafting of the provisions at issue and how the law has developed. Whenever a client asks about restrictive covenants I always have to say I need to check what the state of the law is, because it is so fluid with new case developments.

France –LP Restrictive covenants must be contained in the employment contract and/or the collective bargaining agreement.

To be valid, a non-compete clause should be essential to protect legitimate interests of the employer, be limited in time and geography and include financial compensation to be paid during the enforcement of the clause.

The non-compete clause only applies from the end of an employment relationship, whatever the reason (dismissal, retirement, resignation, etc.)

Non-solicitation clauses are divided into two categories, concerning the poaching of employees or clients. Clauses to protect employees are permissible and do not require compensation as such, provided they only target active and extensive solicitation. The French Supreme Court has, however, judged that this clause can cause a restriction to a fundamental freedom (right to work), and, if so, has to be compensated based on the harm incurred.

Clauses to protect clients are contained in standard non-compete clauses and therefore require compensation.

Unlike non-compete clauses, confidentiality clauses do not need any compensation to be valid because they do not affect the employee in their liberty to work. Employees who have access to sensitive information regarding health and security, or how the company operates, are subject to reinforced confidentiality obligations.

QUESTION 3

What legitimate business interests can be protected by restrictive covenants in your jurisdiction?

UK –SS From the perspective of English law, there are essentially three areas that you are allowed to protect. One is trade connections (i.e. customers, clients, suppliers and goodwill), the second is trade secrets and confidential information, while the third is stability for the workforce to prevent poaching of employees etc.

Australia –JC In Australia, matters such as the protection of goodwill, confidential information, customer and supplier connections or preserving a stable and trained workforce are all types of legitimate business interest capable of protection, albeit the categories are not closed.

US –KM In New York, I would modify the stability of the workforce factor, because it really has to be someone who is unique or special to the organisation, or someone the company has invested a lot of time and money in who has access to certain information. It's not just any worker who is subject to restrictions.

US –LJT In Nevada, I do not believe the issue of the uniqueness of an employee's skills or services has been discussed in a reported decision as a factor in determining the reasonableness of a restrictive covenant. One Nevada Supreme Court case that discusses the uniqueness of the employee's skills or services does so in the context of whether there is "irreparable harm" supporting an award of injunctive relief. Essentially, it's analysed on the back end for the purposes of considering damages, not the underlying enforceability of the covenant, although I am sure there are some courts which would consider the uniqueness of the employee's skills in the original analysis of whether the covenant is reasonable.

US –KM The judges look at this and they analyse it in all sorts of different ways including damages, injunctive relief or other elements.

IR Members pictured at the IR 'On the Road' 2017 Conference in Singapore.

France –LP In France too, a judge will test the balance of interests between the employee's freedom to work and the protection of the employer's business, in accessing the validity of a non-compete clause. The judge may reduce the scope of the obligation if it is too restrictive of the employee's freedom to work.

Mexico –EE There is a constitutional prohibition in Mexico for any negative covenant that restricts work or trade. The way we get around this is to focus on the specialised abilities of the employee, namely the bits we don't want exposed to any third party. We cannot have an open and broad disposition on the contracts, so we have to pinpoint all the activities that we want to include in the confidentiality or non-compete agreements.

IR Members pictured at the IR 'On the Road' 2017 Conference in Singapore.

QUESTION 4

What are the best practice methods you would advise businesses to put in place in order to protect their confidential information, customer connections and goodwill etc?

UK –SS The most important thing for an employer to do is to recognise the value of good and up-to-date contractual safeguards. So, whether that's in the form of employment contracts or separate confidentiality agreements, the name of the game is to regularly review these contracts, making changes when warranted. They should also follow the promotion of junior employees as they work their way up the organisation. It's important to have an eye on what they are committed to contractually, so they don't get overlooked coming up through the business internally.

Australia –JC 'Boiler plate' or 'one size fits all' restraints are rarely effective. Very careful attention needs to be given to the drafting of restrictive covenants and it can be a long, painstaking, task to get it right. You will need to understand the employer's business and the markets in which it operates. Without having done that, the restraints might look pretty, but they are unlikely to be enforceable. It is necessary to understand what needs to be protected and for how long it reasonably needs to be.

It is also crucial to regularly review the contracts and ensure that when an employee is promoted, they have an effective employment contract neatly tied to their new role

Employers also need robust practices and procedures in place to identify and securely protect and preserve their confidential information or other resources they want to protect. If, for example, an employer takes no practical steps to limit the access or transfer of its confidential information, it can be difficult to persuade a court that it should grant orders to protect it from misuse.

US –KM One thing I have noticed is a trend in the evolution of technology and how easy it is now for an employee to leave a company armed with confidential trade secrets, merely by putting a flash drive in a computer and taking it with them upon resignation. Protection, such as stopping employees inserting flash drives into computers, is important, as is the introduction of exit interviews to ascertain what information they have. It is useful to understand whether they are inadvertently holding information on a home computer or personal email account.

US –LJT There is a flip side to that too. I've worked with companies who have no intention whatsoever of trying to use another company's information in their business and are doing everything they can to lawfully hire employees. But, unfortunately, the employees they've hired show up anyway with information belonging to a former employer without the knowledge or consent of the new employer.

I have recommended to my clients that they have new employees sign paperwork that states they are not bound by a non-compete with another employer and don't possess and will not use any confidential information from a former employer. That paperwork can be useful if a company is sued, since they then have a paper trail that proves there was no collusion and no intent by the new employer to engage in any unlawful conduct.

Social media training is another aspect that companies should consider, since employees often inadvertently or intentionally disclose information on social media that should be kept confidential. Geo-tracking is an issue, if somebody is regularly checking in, since it means that competitors could track where they have been, revealing possible sensitive information. LinkedIn connections can also serve as a de facto customer list for competitors who may have access to a person's profile.

Mexico –EE In Mexico, if any company hires an employee and they obtain trade secrets, the company will be responsible for damages caused to the owner. The issue is that when you go to the court the burden of proof is so big that the success achievable is limited.

In a Mexican criminal court, the exposure of that trade secret is considered a federal crime, so that is the best way to deter former employees from disclosure, because it is punishable with up to six years in prison.

France –LP In France, restrictive covenants must be carefully drafted and perfectly adapted to each employee's job position, while conforming to the company's legitimate business. A non-compete undertaking is not relevant for any and all employees.

It could also be necessary to remind the employee about their confidential obligations. For that reason, it is possible to provide a list of every piece of information which is supposed to be confidential and remind employees that the confidentiality obligation shall not only exist during the whole employment relationship but also after the end of the relationship.

US –LJT One thing to consider is that, every once in a while, a client will say they want to waive or negotiate a non-compete clause for some reason. I feel it is dangerous to waive it with one employee and then try to enforce it with another, since that waiver can come up in a future negotiation or court case and can be used against the employer to weaken its position.

UK –SS That's definitely a consideration. If an employer has uniform restrictions across the board, but then doesn't enforce them uniformly, they may be inviting trouble.

IR Members pictured at the IR 'On the Road' 2017 Conference in Singapore.

QUESTION 5

What remedies are most commonly sought for breach of restrictive covenants in your jurisdiction?

UK –SS In England the most common remedy sought is injunctive relief, because you are stopping an employee from doing what they are about to do or seeking delivery up of materials they shouldn't be holding. If you are not seeking specific remedies of a mandatory nature, then you are likely suing for damages from an outgoing employee and/or their new employer for inducing the breach.

Australia –JC The most common remedies in Australia, are permanent or temporary injunctions, orders requiring delivery-up of documents and information, orders allowing searches of premises or IT equipment; damages or an account of profits. It is also possible to take action against a new employer for inducing a breach, albeit there are a number of significant hurdles before this can occur.

US –KM In New York, it is similar, with the large majority of cases likely to be litigated over injunctive relief, although the courts do allow for monetary damages to be recovered (defined as lost profits). If an agreement allows for liquidated damages, then the courts will not allow for injunctive relief because you have essentially identified that monetary damages are compensable and therefore any harm is not irreparable. It's an open question therefore whether liquidated damages should be included in a contract because it might prevent you from getting injunctive relief, which often is what the employer wants in the first place - preventing that individual from working or disclosing confidential information.

France –LP If an employee in France breaches a non-compete provision, the former employer may bring a claim before the Labour Court in order to obtain an injunction to stop the breach, reimburse compensation paid prior to the breach, or ask for damages.

Many non-compete provisions in France contain a penalty clause guaranteeing a fixed amount of compensation without any need to prove the harm caused by the employee. The employee may be obliged to pay damages to the former employer, and may even be forbidden by a judge to continue any competing activity. The employer may also sue the new employer who hired the employee, despite the existence of a non-compete clause, and ask for damages.

US –LJT Some courts in the US will presume irreparable harm, but not necessarily in Nevada. If damages can be calculated, then a court may say there is no “irreparable harm” and refuse to issue an injunction.

Having said that, if a court deems a non-compete to be enforceable, injunctions are a relatively common form of relief in Nevada. At least some courts have also considered lost profits as the proper measure of damages for breach of a non-compete. I am aware of cases, as well, where the plaintiff has sought disgorgement of profits from the profiting entity and there is usually a tort claim that goes along with that (tortious interference with prospective economic advantage, for example).

If you are able to prove a tort claim alongside with the typical contract claims, then there is also a potential to have punitive damages awarded against the employee and company that hires them.

UK –SS Punitive damages are rare in England. You can ask for them, but you rarely get them in my experience.

Mexico –EE We can ask for damages, but we have to prove the amount and that’s the main defence, because it is very difficult to prove the type or amount of damage. In 2015, the Mexican courts awarded damages linked to the size of the company, regardless of how quantifiable the damages were. This was the first time and now acts as a precedent for how we look at these types of damages.

US –LJT I wanted to add something on the unique variations in different jurisdictions. In Nevada law we have a rule about assignment of non-compete clauses, specifically when assignment is allowed to successor entities. In the situation of an asset sale, a non-compete cannot be assigned to a purchasing company (which is considered by the court to be a new employer) without the express consent of the employee and separate and independent consideration being provided. But, this rule doesn’t apply to mergers or 100% sale of stock or 100% sale of an LLC interest because the underlying entity (i.e., the employer) is staying the same.

Mexico –EE That’s also the basic rule for Mexico – everything has to be agreed by the employee or the counterpart, or it’s not enforceable.

UK –SS In England, this is one of the few areas where statute would come in, namely the Transfer of Undertakings (Protection of Employment) Regulations 2006, which is an EU-wide protection. The simple way to describe it is that, when there is a transfer of a business, the employees go with the exact same terms that they had before. It is intended to protect employees, but it can often be beneficial to the new owners of the business from this perspective. This area of the law sometimes throws up strange results, since it is intended to avoid the abuse of employees where there is a change of ownership, but can have the opposite effect.

Australia –JC If a business acquires all of the shares in a business, there will be no immediate legal change to the Australian employment arrangement. The same legal entity will continue to employ the employees and the existing contracts of employment will continue to apply.

However, if a business acquires some or all of the assets of a business in Australia, the purchaser is not required to offer employment to the seller’s employees, and the seller’s employees are not obliged to accept employment with the purchaser. Where the purchaser does want to employ the staff, the purchaser should make an offer of employment including any required restrictive covenants.

US –LJT In the US, you would have to specifically draft terms detailing what is going to happen to those employees, who can choose to opt out if they wish.

UK –SS They have the right to opt out of a transfer in the UK as well, but the statute is generally intended to protect employees.

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