Pre-litigation Steps in Trade Secret Misappropriation and Breach of Restrictive Covenant Litigations

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This practice note addresses pre-litigation steps and strategies for responding to trade secret misappropriation and breach of restrictive covenant litigations. It discusses the following steps you should take on behalf of an employer in assessing and addressing restrictive covenants and potential breaches of them:

- Step 1: Evaluate Legal Options and Remedies
- Step 2: Conduct a Preliminary Investigation (Including Determining Whether to Engage Law Enforcement)
- Step 3: Send Continuing Obligations or Cease and Desist Letters to the Former Employee and New Employer
- Step 4: Discuss the Advantages and Disadvantages of Pursuing Litigation with the Employer
- Step 5: Send Litigation Hold Notices
- Step 6: Consider Filing a Temporary Restraining Order and/or Preliminary Injunction
- Step 7: Consider Bringing Claims against the New Employer

This practice note does not address all potential state law distinctions, but it will provide helpful guidance to all employers. For information on a particular state's restrictive covenant requirements, see the relevant state's "Navigating Restrictive Covenants" practice note on *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*. For a checklist on enforcing restrictive covenants, see *Checklist – Addressing Suspected Violations of Non-compete and Non-solicitation Agreements*.

Step 1: Evaluate Legal Options and Remedies

Determining the Scope of the Employer's Protections

When initially addressing potential trade secret misappropriation and breach of restrictive covenant claims, you must determine the scope and extent of the employer's protections. This comprehensive assessment should include an examination of any applicable restrictive covenants, confidentiality provisions, or other post-employment restrictions (hereinafter collectively referred to as post-employment restrictions) contained in written agreements entered into between the employer and employee. These post-employment restrictions may be found in employment agreements, confidentiality agreements, stock or equity purchase agreements, or bonus plans. Generally, to be enforceable, post-employment restrictions must:

- Be contained in a binding, written agreement
- Be reasonable in duration, scope, and geographic location
- Be used to protect an entity's legitimate "protectable interest" –and–
- Not be contrary to public policy

State law governs the enforceability of post-employment restrictions. Thus, the precise scope of these requirements can vary greatly state by state. See *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*.

There Must Be a Binding Written Agreement

Generally speaking, to be enforceable, an employer must include post-employment restrictions in a valid written agreement between the parties. As such, the employer should determine whether the agreement has met all of the essential elements for contract formation under state law. For instance, you should inquire whether the employee signed the applicable documents or otherwise accepted the benefits or consideration not otherwise available unless through a binding agreement.

Determining Whether the Agreement Is Supported by Adequate Consideration

One potential hurdle (depending on state law) in enforcing a post-employment restriction is the lack of consideration. This is particularly true if the employee entered into the contract after the commencement of employment.

Continued employment or at-will employment may not be sufficient consideration in some jurisdictions. For example, in New Jersey continued employment is considered adequate consideration. *Hogan v. Bergen Brunswig Corp.,* 153 N.J. Super 37, 43 (App. Div. 1977); *Quigley v. KPMG Peat Marwick, LLP,* 330 N.J. Super. 252, 265–66 (App. Div. 2000). But in Pennsylvania, continued employment is not sufficient consideration for a restrictive covenant entered into during the course of employment. *Socko v. Mid-Atlantic Sys. of CPA, Inc.,* 2015 Pa. LEXIS 2672, at *21 (Pa. Nov. 18, 2015). For more information on sufficient consideration in a particular state, see the section entitled "Consideration" in the relevant state's "Navigating Restrictive Covenants" practice note on *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*.

If state law requires consideration other than continued employment, determine whether the employee received additional money, benefits such as stock option plans, relocation expense agreements, or other perquisites, or a substantial job change such as a promotion or assignment of higher-level duties. These benefits and job changes may constitute adequate consideration, depending on state law.

Other Hurdles to Enforceability

An employee's change of geographic area inconsistent with the agreement may render it unenforceable. For instance, if an employee commenced employment in a certain geographic area and agreed to post-employment restrictions in that area, a change in location for a substantial period of time could render the post-employment agreement unenforceable with regard to the original geographic area. A change of identity of the employer or a superseding agreement may also make the original agreement unenforceable. Also be cognizant of any major defects or applicable defenses to contract enforcement under state law such as duress, fraud, incapacity (age, medical, or psychological issues), contracts of adhesion, and contemporaneous statements undermining parties' intent.

The Restriction Must Be Reasonable in Geographic Area, Duration, and Scope, and No Broader Than Necessary to Protect the Employer's Legitimate Interests

Generally, to be enforceable, post-employment restrictions must be reasonable in geographic area, duration, and scope, and must be no broader than necessary to protect the employer's legitimate interests. These reasonableness determinations can vary widely depending on state law.

Geographic and Time Restrictions

The geographic and duration reasonableness inquiry is highly fact specific and depends on the nature of the industry and business, and (absent special considerations) should be limited to the area in which the employee performed work or provided services. For instance, a federal district court in Maryland deemed an 18-month, 50-mile radius restriction as reasonable in *TEKsystems, Inc. v. Bolton,* 2010 U.S. Dist. LEXIS 9651, at *3 (D. Md. Feb. 4, 2010). However, a state court in New York deemed a covenant restricting a plastic surgeon from working within the geographic scope of a 10-mile radius of his former employer as unreasonable. *Yoon-Schwartz v. Keller,* 2010 N.Y. Misc. LEXIS 4677, at *8 (N.Y. Sup. Ct. Nassau Cnty. 2010).

With regard to time restrictions, depending on the nature of the "protectable" interest, longer or shorter durations may be justified. Substantial research and development, product design, or manufacturing time may justify longer time restrictions. Rapid knowledge obsolescence or customer acquisition may result in shorter periods for the restrictions. Many states do not regulate the length of restrictive covenants. Some state laws, however, create statutory rebuttable presumptions of reasonableness. For example, Georgia law creates a rebuttable presumption that time restrictions of two years or less for non-compete agreements are reasonable. See *Navigating Restrictive Covenants in Georgia — Non-compete Agreements*.

Scope of Restrictions

The scope of the restrictions sought to be imposed on the former employee must be reasonable as well. Specifically, the restriction must be relevant to the employer's protectable interest, and it generally should not result in an outright ban on future employment

in the employee's chosen field. For instance, a sales employee for a mutual fund who has developed substantial unique business relationships may present no risk to his former employer's protectable interests by working for a competitor as a dishwasher, bus driver, or executive chef. The answer, however, might be different if the head chef of a five-star restaurant leaves to become the executive chef at a mutual fund.

Inevitable Disclosure

In applicable cases, an employer may rely on the doctrine of inevitable disclosure to prevent any employment with a competitor no matter the nature of the job. The inevitable disclosure doctrine generally holds that the employee's knowledge and awareness of business secrets and confidences is so intertwined with her or his work that disclosure of this information to the former employer's detriment becomes "inevitable" by mere employment. When recognized by state law and supported by the facts of a particular case, an employer may use this doctrine to justify enforcement of the post-employment restrictions notwithstanding the employee's pledge or other safeguards to keep from using the former employer's secrets and confidences. For more information, see the section entitled "The Inevitable Disclosure Doctrine" in the relevant state's "Navigating Restrictive Covenants" practice note on *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*.

The Restriction Must Safeguard an Employer's Protectable Interest

Assuming that the former employer can show both a binding post-employment restriction that is reasonable in duration, geographic inquiry, and scope, the former employer generally must also show that it possesses a "protectable interest." In examining an asserted interest worthy of protection, the focus of the inquiry shifts to the "thing" threatened by the violation of the post-employment restrictions. Mere competition, without more, likely will not be sufficient to justify enforcement.

Once again, the inquiry into whether the former employer has demonstrated a protectable interest varies from state to state and its focus remains fact specific. See *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*. A non-exhaustive list of some "protectable interests" includes:

- Goodwill
- Customer relationships
- Specialized skills and/or knowledge developed by the former employee as a result of the employer's investment
- Customer lists, contacts, preferences, and budgeting or pricing requirements if not publicly available
- Confidential information and/or trade secrets

Depending on the nature of the employer's business, social media content may be considered a protectable interest. For example, an employer's Facebook, LinkedIn, or Twitter page may be considered employer property. See, e.g., *PhoneDog v. Kravitz,* 2011 U.S. Dist. LEXIS 129229, at *10-14 (N.D. Cal. Nov. 8, 2011). Therefore, if an employer highly values and expends significant effort in developing and keeping its "followers" on a social media page, an employer should explicitly state in the restrictive covenant that such pages constitute the employer's property. For more information on social media in restrictive covenants, see *Addressing Social Media in Restrictive Covenants*.

As noted above, the range of protectable interests may vary a great deal under state law. The point is that before seeking to enforce post-employment restrictions, an employer should carefully consider its articulated reason for seeking relief from the court. If the intent of the action focuses on the mere restraint of competition or trade—or is wrongly perceived as focusing on the mere restraint of competition or trade—a court may be justifiably reluctant to use its power for such an end.

Recently, some state attorney generals have been suing to invalidate employee restrictive covenants or investigating employers' restrictive covenant practices. For instance, in New York, the attorney general's office announced that a sandwich shop franchise could no longer require employees to enter into non-competition agreements upon hiring after it determined that these agreements were "unconscionable" when applied to low-wage workers. The national sandwich shop in this case required all workers to sign a restrictive covenant in which employees agreed to wait at least two years after termination of employment to work for a competitor. The Illinois attorney general sued the same national sandwich shop based on the same non-compete agreement.

To avoid such scrutiny and investigation, an employer may wish to ensure that it is using restrictive covenants to protect only valid protectable interests (e.g., specialized knowledge, confidential information developed at considerable expense) as opposed to, for instance, public knowledge that is easily obtained at little or no expense (e.g., how to make sandwiches or conduct other manual

tasks). Employers also may want be careful about making lower-level employees sign restrictive covenants. For example, on August 19, 2016, Illinois Governor Bruce Rauner signed the Illinois Freedom to Work Act (effective January 1, 2017), 2015 Bill Text IL S.B. 3163 (820 Ill. Comp. Stat. 90/1 et seq.), which prohibits enforcement of covenants not to compete against low-wage employees. For more information on the Illinois Freedom to Work Act, see *Navigating Restrictive Covenants in Illinois*.

Protection of Confidential Information

As noted above, courts widely recognize that an employer possesses a protectable interest in confidential information or trade secrets. Such information may include, but is not limited to: customer lists, pricing, client names and contact information, vendor names and contact information (if those venders provide a competitive advantage) contract terms, business methods, marketing plans, software code, and recipes. See, e.g., *Unisource Worldwide, Inc. v. Valenti,* 196 F. Supp. 2d 269, 278 (E.D.N.Y. 2002) (finding that customer preferences, pricing information, and ordering patterns were protectable interests).

When a party focuses on "information" as its protectable interest, the inquiry becomes highly fact specific. Among other factors to take into account, the following questions may be relevant:

- Does the information qualify as a "Trade Secret" under the Uniform Trade Secret Act, UTSA § 1(2), and the Defend Trade Secrets Act of 2016, 18 U.S.C. 1839(5)? See *Uniform Trade Secrets Act*; *2016 Emerging Issues 7433*, Defend Trade Secrets Act; *Trade Secret Fundamentals*; and *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*.

- Is the information otherwise publicly available without great effort or expense?

- Is the information provided to customers or vendors in the ordinary course of business and, if so, what protections does the employer take to protect against the dissemination of the information (third-party confidentiality agreements or the like)?

Courts will also consider the steps an employer takes to protect the confidentiality of the information. For instance, is electronic data stored on secured, password-protected servers or is the information available to any employee regardless of her or his need for the information? Are hard copies of the information placed in unsecured notebooks or file cabinets? Has the employer adopted and enforced confidentiality policies and procedures, including periodic reminders to employees of the need to protect against the disclosure of confidential information? Does the employer maintain data security policies designed to prevent the copying and dissemination of electronic data?

Other Considerations / Public Policy

Preliminary research, in many instances, will allow the employer to determine whether state public policy favors or disfavors enforcement of post-employment restrictions. For instance, by statute, California broadly prohibits post-employment restrictions in all but limited circumstances. See *Understanding California Restrictive Covenant and Trade Secret Laws*. Conversely, Florida's restrictive covenant statute provides that non-compete agreements of six months or less are presumptively reasonable in time. *Implementing Restrictive Covenants and Trade Secret Protection Under Florida Law*.

Generally, the law of most jurisdictions disfavors an agreement that essentially prevents the employee from working in the employee's chosen profession. If the post-employment restriction at issue broadly prevents the employee from pursuing his or her chosen profession, prevents the employee from earning a living, or creates an undue hardship, a court may find it difficult to fully enforce the employer's contractual "rights."

The practice of terminating an employee but keeping him or her on payroll is often called "Garden Leave." See *Understanding, Negotiating, and Drafting Garden Leave Provisions*. If an employer is paying the former employee to refrain from competing or being employed, a court is more likely to enforce the agreement, as the equities will favor the employer and employee "hardship" is greatly reduced.

Step 2: Conduct a Preliminary Investigation (Including Determining Whether to Engage Law Enforcement)

The employer should immediately begin an investigation whenever it learns that an employee has violated her or his enforceable post-employment obligations. One should not discount the importance of conducting a prompt, thorough investigation. A court may be reluctant to exercise its equitable powers to prevent a continuing violation of post-employment obligations if an employer has "slept on its rights" by allowing a long passage of time between the time it finds out about the violation to the time it initiates an action. Here, evidence that the former employee has misled the employer as to her or his intent or otherwise taken steps to make secret the alleged breach may be critical. As addressed in detail at the end of this section on preliminary investigations,

if the investigation uncovers evidence of an employee misappropriating trade secrets or other major violations of her or his post-employment restrictions, the employer may consider contacting law enforcement.

Key Parts of the Preliminary Investigation

Interview Supervisors and Coworkers

Start by interviewing supervisors and/or managers of the former employee who are likely to have information about the nature and extent of the protectable interest at risk. This may include the type and secrecy of the information to which the employee had access, its importance to the operations, and its availability from other sources.

Next, interview any of the employee's coworkers you believe would have information. These interviews can typically provide valuable information as to the former employee's attempt to solicit customers or employees or take confidential information.

Consider obtaining an early affidavit or declaration from coworkers and supervisors, as litigation can potentially last many years and key witnesses may no longer be with the employer.

Conduct Internet and Social Media Searches

Consider an Internet and social media search, as the results could yield valuable information. Consistent with every changing legal standards, consider use of information posted on the employee's Facebook page, LinkedIn page, Twitter account, GooglePlus account, etc. Recent public attention to employers' use of social media warrants a careful examination of any state law limitations on such "data mining."

Consider reviewing a former employee's **public** social media accounts, as these webpages can reveal solicitations of customers and/or former employees. For instance, if a former employee leaves a job and then posts on a current employee's page a job posting with his or her new employer, this act could constitute a violation of the restrictive covenant, depending on state law. Additionally, an employer may want to include language in its non-disclosure agreement requiring employees to keep confidential the employer's trade secrets, confidential information, and intellectual property and not post these items on social media.

Conduct a Forensic Investigation of Former Employee's Electronic Devices

If consistent with the employer's computer and electronic data policy, consider a forensic investigation of the former employee's computers, mobile devices, and employer servers to determine if he or she copied, forwarded, or destroyed electronic data. Consider whether the former employee had the opportunity to transfer data to external drives or otherwise install destructive or "masking" software to obscure trace evidence.

First, become familiar with the state and federal laws that limit an employer's ability to review an employee's devices. Even if an employer has the technological capability of remotely reviewing the contents of personal devices, state and federal law may limit the employer's ability to take advantage of that capability. Second, identify the devices the employer is interested in reviewing. Arguably, the employer can review any device—including personal devices—that the employee used for work purposes or for the purpose of violating the restrictive covenant. Identify any business devices such as laptops, smartphones, and tablets, as well as any personal devices that may have discoverable information. Upon termination of the employee, ask the IT department to properly store and preserve the employee's devices in a safe and secure location.

Next, consider whether the employer would like the investigation of the electronic devices conducted internally (i.e., by the employer's IT department) or by an outside investigator. There are advantages and disadvantages of each approach. If the investigation is conducted by an outside investigator the employer may be able to conduct a more robust and exhaustive search of the devices. For instance, an outside investigator may have the technology to search for deleted data and/or determine whether the employee has transferred information elsewhere. Additionally, an appropriate outside investigator likely has the technology to preserve any evidence gathered and maintain a physical chain of custody. However, using an outside investigator may be expensive depending on the amount of devices and data that must be searched and the scope of the investigation. When supervising the forensic investigation an attorney should set short yet realistic deadlines for the forensic investigators in accordance with the urgency of the situation and the likely risk of harm. Communications with the forensic investigators may become discoverable if the employer later uses the forensic investigator as an expert witness. Attorneys should be cognizant of the privilege rules in their jurisdiction and recognize that even if the matter is commenced in one court it may later be removed or transferred to a different court.

Conducting a search of the devices internally tends to be less expensive than hiring an outside investigator. However, often an employer may not have the requisite technology and/or capacity to conduct a robust search and/or preserve the evidence. If the employer decides to conduct the search internally, direct the employer's IT personnel to search all of the employees messages

(including e-mail, text messages, etc.) using search terms (e.g., the name of the employer or the name of a major competitor) and to check the trash folders of the device. If the IT department identifies potential evidence, take a screenshot of the confidential material and preserve it to use as evidence should litigation become necessary.

Consider Conducting Surveillance on the Former Employee

Depending on the circumstances, an employer may consider the retention of a private investigator to conduct surveillance on the former employee. For instance, if the employer cannot ascertain from any other methods above where the employee is currently employed and/or he or she is not willing to concede that he or she is working for a direct competitor, a private investigator may be able to make these determinations based on observation.

Whenever undertaking such an investigation, however, the employer must scrupulously comply with all of the requirements of the Fair Credit Reporting Act (FCRA) (if applicable) and/or state privacy laws. The FCRA limits the use of "consumer reports" and "investigative consumer reports." Under the law, the term "investigative consumer report" means

> a consumer report or portion thereof in which information on a consumer's character, general reputation, personal characteristics, or mode of living is obtained through personal interviews with neighbors, friends, or associates of the consumer reported on or with others with whom he is acquainted or who may have knowledge concerning any such items of information.

15 U.S.C. § 1681a(e).

A "consumer report" is defined as any

> written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's . . . character, general reputation, personal characteristics . . . which is used . . . in whole or in part for the purpose of serving as a factor in establishing the consumer's eligibility for . . . employment purposes . . . or any other purpose authorized under section 604. . . .

15 U.S.C. § 1681a(d).

The use of a licensed, fully bonded private investigator may prevent violations of the FCRA and state privacy laws. Make sure that the investigation firm that the employer engages agrees to comply with all federal and state laws, so that the employer can confidently use the reports that the investigation firm generates, and to ensure that the employer is not in violation of the law.

For more information on the FCRA, see *Step-by-Step Guidance for Complying with the FCRA and State Mini-FCRAs*; and *Understanding Consumer Reports (Including Credit History Checks) Under the Fair Credit Reporting Act*. For information on state privacy laws, see the applicable practice note for your state in the Privacy, Technology, and Social Media topic of Lexis Practice Advisor's Labor & Employment offering.

Consider Communicating with the Employer's Customers, Vendors, or Suppliers

Generally, employers and/or attorneys should avoid contacting the employer's former and current customers, vendors, and suppliers. This is especially true of the employer's customers as they likely do not want to be involved in litigation, and it may lead to a loss of business for the employer. But special considerations may warrant reaching out to current or former customers, vendors, or suppliers. Where there are strong and/or close relationships between the employer and customers, vendors, or suppliers, you may want to inquire through a friendly phone call whether the customer/vendor/supplier has any knowledge or information about the former employee's employment and/or contacts with customers. However, before communicating with the employer's former and current customers, vendors, or suppliers, you should have a separate discussion with the employer's relevant business leaders to confirm that reaching out to the customers, vendors, or suppliers is in line with the employer's business interests.

Determining Whether to Engage Law Enforcement

In certain cases, an employer may wish to consider engaging law enforcement. It is important to keep in mind, however, that law enforcement will only investigate trade misappropriation and breach of restrictive covenant matters in certain circumstances. The government's interests are limited to protecting the public interest and victims of crimes. In deciding whether to solicit assistance from law enforcement, ask: Is there a public harm involved? If there is a government interest at stake, such as the theft of military secrets, or matters involving antitrust or consumer harm (e.g., the theft of customers' credit card information), the government entity is more likely to undertake the investigation.

In some instances, the criminal nature and/or harm posed to the public by the alleged defendant's actions may not be readily apparent to the government entity. Thus, an employer and/or an attorney will want to gather and frame the facts so that they fit a particular actionable criminal offense that the government is interested in pursuing.

Typically, the government is not interested in undertaking an investigation involving a dispute between private businesses, such as matters concerning the solicitation and employment of a competitor's lead salesperson or engineer. Contacting a law enforcement agent in this type of situation will likely result in the law enforcement entity suggesting that an employer file a civil suit.

Advantages and Disadvantages of Engaging Law Enforcement

Advantages

One advantage associated with involving law enforcement in an employer's investigation is that the government may have access to investigative devices to provide for more prompt and complete discovery of information. In addition, should law enforcement become involved because of the public interests at issue, the targets of the investigation may come to appreciate any issues associated with their actions more quickly than if only faced with a threatened or actual civil case. This recognition by the targets of the investigation could help to expedite a resolution satisfactory to all.

Disadvantages

There are also disadvantages associated with engaging law enforcement in an employer's investigation of a trade secret misappropriation matter, including: (1) the potentially public nature of the investigation, (2) a loss of control over the investigation, and (3) the risk that the government's investigation may spread beyond the precise issues that the employer raises.

The potentially public nature of the investigation. An employer may prefer to have the matter remain private or be resolved confidentially. A government investigation may ultimately be public. An employer cannot control what the government chooses to publicize.

Loss of control over the investigation. The engagement of law enforcement may lead to a loss of control over the investigation as an employer will not be able to control the pace of the government's investigation. If, for instance, the matter is assigned to an overburdened or disinterested investigator, the investigation may drag on for months, or even years. This is especially true if the government agency is stretched thin with several cases and has limited resources.

Risk of the required disclosure of information. When a government entity is engaged in an investigation an employer cannot pick and choose what details the government may demand. The government may expand its investigation into other areas an employer prefers not to disclose or be investigated. What the government does not obtain through voluntary cooperation, it may seek formally, such as through a subpoena or search warrant.

Choosing the Governmental Entity

First, decide whether to engage a federal or state agency. At the federal level an employer may work with the U.S. Department of Justice, which includes the Offices of the U.S. Attorneys and the FBI. At the state level, options include prosecutors' offices and state and local police departments. For a trade secret misappropriation case, it may be best to seek out the business crimes unit of the state prosecutor's office. A local prosecutor may be less familiar and not well-versed in white-collar criminal investigations. An employer may want to consider using a local police department if the crime involved is blue-collar in nature.

Best Practices for Working with Law Enforcement

Prosecutors may be overburdened with their caseload and may not be exhaustive in their investigation or thorough in their collaboration with an employer. It is best to have legal counsel interface with the government so that an employer's interests are protected. Counsel may facilitate the provision of information to the agency, conduct interviews, and prepare witnesses. Also, law enforcement may not have the best grasp of an employer's operations, unlike outside counsel, which could lead to problems during the life of the case.

Step 3: Send Continuing Obligations or Cease and Desist Letters to the Former Employee and New Employer

Once an employer has determined that the risk of harm from the breach of a restrictive covenant warrants additional enforcement steps, the employer should consider providing written notice of the employee's obligations under the restrictive covenant and/or the alleged breach to the former employee, new employer, or both. You should carefully consider the content, tone, and recipient of these letters. Providing written notice to the former employee and her or his new employer is not a prerequisite to suit. In appropriate cases, where a breach may cause significant and irreparable harm to the employer's interests, an employer may have no choice but to seek expedited relief in court. If an employer determines that it is wiser to provide written notice of its concerns, you should consider

the following issues. For more information on drafting cease and desist letters, also see *Enforcing Restrictive Covenants — Drafting Cease and Desist Letters*.

Continuing Obligations Letter to the Former Employee

A continuing obligations letter is a notice that reminds an employee of his or her obligations under his or her restrictive covenant, with a copy of the restrictive covenant attached to the letter. The employer should primarily use this letter in situations in which an employer is not certain that a violation has occurred but has reason to believe that a violation may occur. This letter may come from an executive of the employer or the human resources department. To send a more aggressive message, in-house or outside counsel may send the letter.

For a sample continuing obligations letter to an employee with detailed drafting notes, see *Continuing Obligations Letter to Former Employee Regarding Post-employment Restrictions*.

Cease and Desist Letter to the Former Employee

A cease and desist letter demands that an employee refrain from violating his or her contractual obligations, misappropriating the employer's confidential information, or conducting any other illegal activity. The employer should send a cease and desist letter to an employee where the employer has specific allegations that a former employee is violating his or her post-employment restrictions. The letter may include the allegations, as well as a copy of the restrictive covenant, and a summary of the former employees' obligations under the covenant. An employer may consider including the causes of action it believes it has against the former employee. It is recommended that outside counsel or in-house counsel send the cease and desist letter, if possible. But if the employer wants to take a less aggressive tone, then a management employee or the human resources department can send the letter. If reasonable in tone, content, and proposed remedy, this letter may become Exhibit A to any court complaint seeking injunctive relief and/or damages, as the employer will want to demonstrate to the court that litigation was a last resort rather than the first line of defense.

For a sample cease and desist letter to an employee with detailed drafting notes, see *Cease and Desist Letter to Former Employee Regarding Post-employment Restrictions*.

Continuing Obligations Letter to the New Employer

An employer should generally send a continuing obligations letter to an employee's new employer to notify or remind the new employer of the former employee's post-employment restrictions (whether non-compete, non-solicitation, or confidentiality obligations).The employer should also inform the new employer of any believed violations, and how the new employer's actions in aiding those violations may be illegal. The letter should include a copy of the restrictive covenant that the employee signed.

For a sample continuing obligations letter to an employer, see *Continuing Obligations Letter to New Employer Regarding Post-employment Restrictions*.

Cease and Desist Letter to the New Employer

An employer should send a cease and desist letter to an employee's new employer when the new employer is employing its former employee and is at imminent risk of harming the former employer's business interests. Before taking this step, however, you should carefully review the strategic and practical issues it may create. Depending on the nature of the competitive relationship (fierce rivals in head-to-head competition versus established competitors with complex business relationships), an employer may wish to refrain from this step, at least at the outset. The employer may also have strategic reasons for not immediately sending the cease and desist letter. For example, if the agreement containing the post-employment restrictions between the former employee and the former employer includes favorable forum selection or choice of law clauses, sending an aggressive demand letter to the new employer (which presumably will not be a party to the underlying agreement) may provide the new employer with the opportunity to seek declaratory relief in a different venue or under a different state law. Finally, the employer should at least consider possible tort or other claims arising from the disclosure of the alleged post-employment restriction violations (e.g., tortious interference with contract, defamation, or invasion of privacy). In this cease and desist letter the employer should include the information and/or allegations against the new employer and/or its employees, and the causes of actions the employer may pursue.

For a sample continuing obligations letter to an employer with detailed drafting notes, see *Cease and Desist Letter to New Employer Regarding Post-employment Restrictions*.

Step 4: Discuss the Advantages and Disadvantages of Pursuing Litigation with the Employer

If the continuing obligations or cease and desist letters do not result in a dialogue leading to a non-litigation based solution, or the breach presents irrevocable and immediate risk, the employer should actively consider the risks, costs, and impact of litigation.

Litigation always costs more and takes longer than you expect. Given the cost and length of time it takes to litigate, you should discuss the following advantages and disadvantages of litigation with employers.

Advantages of Pursuing Litigation

Commencing litigation against the former employee or the new employer may carry several advantages. First, if successful, the enforcing employer will have the power of the court to ensure future compliance and may be awarded monetary damages to compensate for any significant business loss. In matters where both the employee's breach and the need for relief are reasonably clear, a court may order interim relief pending the final disposition of the matter (e.g., issuance of a preliminary injunction). Second, the filing of a public complaint against the former employee sends a very public message that the employer intends to enforce its legitimate rights and interests. Even if the litigation ultimately does not achieve all of the employer's desired goals, the fact that it was willing to engage in such action arguably may make others think twice before ignoring their commitments.

Disadvantages of Litigation

Litigation always takes more time and costs more money than an employer anticipates. That is just the nature of the process. Furthermore, litigation seeking to enforce post-employment restrictions requires the involvement of key business leaders more than almost any other kind of case. Even the best outside counsel may not appreciate or be sensitive to the complex business relationships or the nature of the information at issue. In our experience, business leaders should be partners in the litigation process to ensure that the employer's business interests remain the focus of every significant litigation decision. You should specifically discuss the following other disadvantages of trade secret / restrictive covenant litigation with the employer.

Discovery

Consider the type, amount, and sensitivity of the information that will be discoverable when the employer engages in litigation. If, for example, the former employee now works for a direct competitor, discovery demands may require the disclosure of the very secrets and confidential information that the employer sought to protect in the first place. While confidentiality orders and other procedural safeguards may prevent the dissemination of confidential information, in highly complex litigation, the employer may have to disclose information to senior executives of a significant competitor.

No matter what a court may order, it may be difficult even for the best-intentioned adversary to "forget" an idea or strategy shared in confidence. The practical implications of dealing with truly sensitive information should not be understated. You may need to closely work with business leaders to review and assess the sensitivity of business records, seek court orders or other protections limiting access to information, or otherwise negotiate procedural safeguards. Even if successful in preventing unintentional disclosure, such steps inevitably drive up the costs of litigation..

Counterclaims

Also consider that the former employee may file counterclaims. Make sure to discuss with the former employer whether it believes the employee has any viable claims against the former employer, and the validity of those claims.

Potential Negative Press

The former employer should also be cognizant of any potential negative press. This is especially true if the facts result in a particularly sympathetic set of circumstances.

Step 5: Send Litigation Hold Notices

A litigation hold notice instructs business representatives and employees to preserve records and information relevant to the underlying dispute in a certain lawsuit or investigation. Identify the key players in the case and send litigation hold notices to these individuals. Almost always include the human resources representative and/or any manager who has the hiring and termination documents related to the employee, the employee's direct supervisor, and any potential key witnesses. Also send notices to any of the employee's coworkers with whom he or she regularly e-mailed to preserve those documents as well.

For sample litigation hold letters with key drafting tips and explanations, see *Litigation Hold Letter to a Client in an Employment Dispute*; and *Litigation Hold Letter to an Opposing Party in an Employment Dispute*.

Step 6: Consider Filing a Temporary Restraining Order and/or Preliminary Injunction

If you can demonstrate that the former employer's business is likely to suffer immediate, irreparable harm (such as the loss of a key customer or of key employees) due to the former employee violating the restrictive covenant, a court may grant a temporary

restraining order (TRO) or a preliminary injunction. The standard for granting injunctive relief differs depending on the jurisdiction, but generally a court will look at four factors:

(1) Whether the employer is likely to prevail on the merits of the case on trial

(2) Whether the employer will suffer irreparable harm

(3) Whether the harm by the employer outweighs the harm by the employee –and–

(4) Whether it is in the public interest to grant the injunction

For information on a particular jurisdiction's preliminary injunction requirements, see the relevant state's "Navigating Restrictive Covenants" practice note on *Chart – State Practice Notes (Non-competes and Trade Secret Protection)*.

A court can grant a TRO solely on the basis of affidavits and in some cases without the employee entering an appearance. A TRO is typically of limited duration (14 days), and can be renewed upon expiration. A preliminary injunction requires an evidentiary hearing. To file a TRO, prepare affidavits for key witnesses and investigators. The court may grant a TRO preventing an employee working for a certain employer, revealing trade secrets, soliciting other employees, or soliciting customers.

For additional information on obtaining injunctive relief, see the section entitled "Obtaining Temporary Injunctive Relief" in *Enforcing Restrictive Covenants*.

Step 7: Consider Bringing Claims against the New Employer

The former employee's new employer may be in violation of the recently enacted federal Defend Trade Secrets Act of 2016 (18 U.S.C. § 1832 et seq.) (providing for a federal cause of action for the theft of trade secrets). The new employer may also be violating state law while employing the former employee. For instance, you may be able to bring claims of state unfair competition, usurpation of corporate opportunities, tortious interference with contract, tortious interference with business, and misappropriation. Again, these claims are highly fact and state specific and you will need to conduct research on the types of claims that are cognizable under state law.