

When An Important Employee Becomes A Competitor

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The departure of a valuable employee can be one of the most important events in the life of a business. Ideally, a business owner will have been counseled in advance to prepare for such an eventuality. But, often, that is not the case.

When an employee who has knowledge of a company's customers, business practices, and perhaps its trade secrets or other strategic information, suddenly quits to start a competing business or to go to work for a competitor, that employee and his or her former employer will have important matters to consider and potential litigation choices to make.

In many instances, state law will be controlling and Louisiana has several statutes and court-made rules that should be considered.

Potential claims include claims for breach of contract, breach of fiduciary duty, actual or threatened misappropriation of trade secrets, inevitable disclosure of tradesecrets, unfair competition, and computer fraud. But these claims can only be used judiciously and in the proper case, after consultation with an experienced attorney.

The issues that arise in this area can be heavily fact-dependent and should therefore be carefully reviewed in consultation with an attorney.

I.

Has the Employee Signed a Contract with the Employer? If So, Is That Contract Enforceable In All of Its Terms?

At the outset, it is important to compile all agreements that the employee may have signed during employment. One of the most important types of agreements is a covenant-not-to-compete. Such an agreement purports to forbid the employee from working in competition with his employer in an area and for a time period that is defined. These agreements are subject to significant limitations in Louisiana, which has promulgated very specific rules on the area from which an employee can be excluded and the period of time for which the restraint can be effective. It is also important to determine whether the occupation or the business from which the employee is purportedly excluded is clearly and enforceably defined.

It is worth noting that these covenants-not-to-compete are not limited to employment contracts. Louisiana allows the enforcement of such covenants contained in the sale of a business, in the articles of partnership, in a franchise agreement, and in certain relationships involving computer programming. Although Louisiana generally looks with disfavor upon agreements that restrict a worker's right to earn a living, these agreements are enforceable where the applicable statute is complied with. A careful

review of the agreement, or agreements involved, can apprise the parties of their rights and the enforceability of such contracts.

In many instances, such agreements attempt to define the location, or forum, in which litigation concerning the contract and/or the rights of the employee and the former employer should be litigated. These forum selection clauses should also be carefully reviewed with an attorney to determine whether they comply with the applicable requirements of Louisiana law.

Another kind of agreement that may be involved is an agreement that the employee will not disclose trade secrets of the former employer to anyone outside the former employer's company.

Where the employee has not signed an enforceable agreement not to compete, the employer may have a claim for breach of fiduciary duty if the employee wrongfully takes and misuses confidential information. There are four basic elements to such a claim:

The former employer must show that:

1. it possessed information that is not generally known;
2. it communicated the information to the employee;
3. that information was communicated under an agreement limiting its use or disclosure by the employee, and
4. that information was used by the employee to injure the employer.

It is clear that the use of knowledge lawfully derived from one's employment is not an unfair trade practice. Thus, in the absence of a covenant not to compete, an employee is generally free to take his skills and expertise, and his personal knowledge of his former employer's business and to use them for his own benefit or the benefit of his employer's competitors.

But it is important to note that these claims can be mis-used by companies or business owners that are trying to insulate themselves from competition. For that reason, unsound claims are potentially fodder for a counterclaim by a former employee that his right to compete is being interfered with. If a defendant is able to show that a non-competition agreement which was sought to be enforced against him was invalid, he may have a basis to make an affirmative claim that the attempted enforcement of the invalid agreement not to compete was itself an unfair trade practice.

Finally, an employer may be tempted to challenge solicitation by the employee of the employer's customers while he was still employed by the complaining employer or immediately upon leaving. In some earlier cases, soliciting the customers of one's employer, prior to leaving his employ, has presented problems of liability. Several more recent cases, however, have declined to hold an employee liable for soliciting business prior to leaving employment. Once again, consultation with an experienced attorney is crucial, because the cases are highly fact-dependent.

The effects of the conduct at issue are an important consideration, but one should not assume that a successful claim can be based on harm alone. Conduct which has devastating effects on a former employer may be found to be proper business conduct, under the specific circumstances of a case.

It is important to be aware that an employer's attempt to enforce an invalid covenant not to compete can give rise to a counterclaim for damages under the UTP Law.

Similar issues may arise if the employee has signed other contracts with his employer such as an agreement not to solicit that employer's customers or an agreement not to solicit other employees of that employer. Confidentiality agreements between the employer and the departing employee should also be carefully reviewed.

The lesson of the reported cases is that this area is highly fact-intensive. Cases under the UTP law are often combined with claims under the Uniform Trade Secrets Act, claims involving breaches of confidentiality agreements and/or covenants not to compete imposed by an employer. Timing, intent and motive are very important in these cases.

Employers and employees should proceed cautiously, on the advice of an experienced attorney.