Employment Covenants: An Ounce of Prevention Is Worth a Pound of Cure

by Gregory M. Saylin and Tyson C. Horrocks

Benjamin Franklin once said that “an ounce of prevention is worth a pound of cure.” An employer in a recent appellate court ruling may have found this out the hard way. In Utah Telecommunication Open Infrastructure Agency v. Hogan (UTOPIA v. Hogan), 2013 UT App 8, 294 P.3d 645, the employer sought to prevent an employee from disclosing confidential information pursuant to a professional services agreement. (While the “employee” in the case may be more accurately referred to as an independent contractor, the authors refer to him as an employee and the plaintiff as the employer to better discuss the application of the decision in the labor and employment law context.) The employer not only lost at the preliminary injunction hearing because the relied-upon contract language was found not to cover the threatened disclosure, but on appeal, to add insult to injury, the Utah Court of Appeals found that the employer may have to pay the employee’s attorneys’ fees and costs associated with the “wrongfully” issued temporary restraining order. This article explores the impact of the recent ruling on an employer’s non-disclosure and confidentiality agreements, as well as newly identified risks in enforcement through injunctive relief.

Non-Disclosure, Confidentiality & Non-Compete Agreements

In our experience, many Utah employers choose to be “penny wise and pound foolish” in using the same protective covenants in their employment and professional services contracts that they have been using for years. In fact, in many cases, no one in HR can really remember where the contract forms came from in the first place. With the constantly changing legal landscape, employers should undertake a periodic review of their contractual language and identify circumstances when specially tailored language is needed for a particular employee, category of employees, or contractor.

The UTOPIA v. Hogan case presents a helpful backdrop for discussion. In that case, the employer sought to protect its confidential information by including the following provision in its professional services agreement with Hogan: “[Hogan] understands that the Services performed for UTOPIA are confidential and [Hogan] agrees to maintain such confidentiality.” UTOPIA, 2013 UT App 8, ¶ 2 (alterations in original). When a dispute arose between UTOPIA and Hogan as to the termination of the agreement, Hogan’s negotiations were interpreted by UTOPIA as threatening disclosure of sensitive information. Id. ¶ 3. While UTOPIA initially convinced the trial court to issue a temporary restraining order to prevent disclosure by Hogan until a preliminary injunction hearing could be held, the trial court ultimately found that a preliminary injunction would not issue because, among other reasons, “[i]t appears that all of the information that [Hogan]…threatened to disclose, is not prevented by this

GREGORY M. SAYLIN is a trial partner in Dorsey & Whitney’s Salt Lake City Office, and a member of the firm’s Labor & Employment Law Group.

TYSON C. HORROCKS is an attorney in Dorsey & Whitney’s Salt Lake City Office, and a member of the Trial Group and the Labor & Employment Law Group.
contractual provision.” *Id.* ¶ 5 (alterations and omission in original). Thus, the temporary restraining order was dissolved and further injunctive relief denied. The employer’s contractual provision was not sufficiently specific to provide the employer with the protection it needed in a time of urgency and conflict.

While *UTOPIA v. Hogan* concerns a disgruntled former employee who is threatening disclosure of the employer’s information to gain better leverage in ongoing negotiations, perhaps the most concerning and more common circumstance for employers is where a former employee has been hired away by a competitor and is now using the employer’s information and trade secrets to aid the competitor’s business. Employers must proactively guard against such attacks well in advance of the need to pursue litigation.

In drafting non-disclosure and confidentiality agreements, employers should resist the temptation to broadly protect every sort of information from disclosure, and should instead ensure that contract language carefully and specifically defines the confidential information and trade secrets sought to be protected. Broadly defined agreements are harder to enforce and much less effective. Therefore, employers should: (1) clearly define the duties of confidentiality or nondisclosure, and provide specific instructions as to when and to whom such information may be disclosed; (2) provide specific guidance as to the maintenance and protection of confidential and trade secret information; and (3) make clear that such obligations survive the termination of the employment or contract term. Employers should also include comprehensive non-disclosure and confidentiality policies in their employee handbooks or set forth as stand-alone policies. Both the form of such agreements and the implemented policies should be reviewed regularly to ensure that they continue to be tailored to the needs of the employer and the circumstances of employment. Periodic employee training on responsibilities for safeguarding confidential and trade secret information is highly recommended.

Well-drafted, specific agreements are particularly important when an employer desires to bind their employees to a non-compete agreement. For a non-compete agreement to be enforceable in Utah, the restrictive employment covenant must be (1) supported by consideration; (2) negotiated in good faith; (3) necessary to protect the goodwill of the business; and (4) reasonable in its restrictions as to time and geographic area. See *Sys. Concepts v. Dixon*, 669 P.2d 421, 425–26 (Utah 1983); *Allen v. Rose Park Pharmacy*, 237 P.2d 823, 828 (Utah 1951). As with confidentiality and non-disclosure agreements, covenants not to compete should be tailored to the employer’s needs and circumstances, and reviewed regularly.

While it is unclear from the *UTOPIA v. Hogan* opinion whether better contractual language would have permitted UTOPIA to prevail on the merits of its claims, well-drafted contracts and employee policies are a significant aid to employers in preventing the misuse and disclosure of proprietary, confidential and trade secret information.

**Enforcement Through Injunctive Relief**

Perhaps the most significant impact of *UTOPIA v. Hogan* is its ruling in regards to the availability of fee awards where the employer is unsuccessful in securing a preliminary injunction. Historically, relying on Utah Rule of Civil Procedure 65A, Utah courts have ruled that if an “injunction was wrongfully issued, the enjoined party has an action for costs and damages incurred as a result of the wrongfully issued injunction.” *2013 UT App 8*, ¶ 21, 294 P.3d 645 (quoting *IKON Office Solutions, Inc. v. Cook*, 2000 UT App 217, ¶ 12, 6 P.3d 1143); see also *IKON Office Solutions*, 2000 UT App 217, ¶ 13. *UTOPIA* confirms the availability of a fee award in the employment context where an employer successfully obtains a temporary restraining order to prevent undesired disclosure but then loses at the preliminary injunction hearing. This opinion is significant for employers because attorney’s fees associated with injunctive proceedings can be very expensive.

A common defense to a Rule 65A fee award is that wrongfully enjoined parties are entitled to only “those attorney fees which would not have been incurred but for the application for, and issuance of, the preliminary injunction. Fees which would have been incurred anyway, in the course of [the underlying litigation,] are not recoverable under Rule 65A.” *UTOPIA v. Hogan*, 2013 UT App 8, ¶ 22 (quoting *Tbohlen v. Sandy City*, 849 P.2d 592, 597 (Utah Ct. App. 1993)). In many litigation matters, the very issues prepared and argued in support of a temporary restraining order or preliminary injunction are the core issues of the underlying litigation. Since UTOPIA dismissed its complaint.
following the trial court’s determination that it was not likely to prevail on the merits, Hogan argued on appeal that the fees and costs he incurred in opposing the emergency injunctive relief would not have otherwise been incurred. See id. ¶ 23. The Utah Court of Appeals remanded the case back to the trial court “to determine the amount of attorney fees, if any, that should be awarded to Hogan…” Id.

In the face of the UTOPIA v. Hogan decision, employers will now need to think twice before seeking a temporary restraining order — one of the principal enforcement weapons an employer has in an urgent situation where an employee or former employee is disclosing or about to disclose confidential or trade secret information. If the employer successfully obtains a temporary restraining order to halt any potential disclosure, the employer will want to have confidence that it will prevail at the preliminary injunction hearing which is usually held within ten days after the temporary restraining order issues. See Utah R. Civ. P. 65A. Since some courts are quick to issue a temporary restraining order to preserve the status quo, it is imperative that an employer conduct a risk-reward analysis before launching any legal effort to stop the former employee.

Unlike other actions, disputes involving injunctive relief move very quickly. Consideration of the relative strength of an employer’s contractual protections must take place well in advance of the need for such quick action. Additionally, well-drafted agreements and policies will discourage an employee or former employee from deciding that disclosing company confidential information or trade secrets is a good risk, and perhaps avoid the need for injunctive relief altogether.

**Conclusion**

UTOPIA v. Hogan is a reminder to employers of the need for preparation and planning to protect confidential, proprietary and trade secret information from unauthorized disclosure and misuse. In our rough and tumble competitive world, where competitors may seek to poach away key employees or where disgruntled employees may use mass media or the Internet to disseminate an employer’s sensitive information, careful preparation of non-disclosure and confidentiality agreements and policies is an important and cost-effective method of defense.