# 2024 Business Litigation Practice Group Seminar

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## Negotiating the Shifting Minefield of Noncompetes, Trade Secrets, and Confidentiality


Joseph G. Fortner, Jr., Moderator
HALLORAN SAGE LLP
Hartford, Connecticut
fortner@halloransage.com

Douglas F. Halijan
BURCH, PORTER & JOHNSON
Memphis, Tennessee
dhalijan@bpjlaw.com

Clementine Uwabera
STAFFORD ROSENBAUM
Madison, Wisconsin
cuwabera@staffordlaw.com

# Introduction[1]

Inventions, creations, ideas, methods, processes, systems, and other intangible property are a critical part of almost every business. Whether it involves customer lists, formulae, mixing methods, or methods of operation, how things are made, "get done," or are sold is often the beating heart of a company's success. What is often as important, given that few employees are "lifers" within a company, is ensuring that with personnel changes, the company does not find itself competing against its own "crown jewels."

Courts, legislators, regulators, and public policy makers have long struggled with how to protect the valuable confidential information of a business where it is not otherwise protected by patents, copyrights, or similar law. Whether because of increased employee movement, or employer overreach, this protection has in the past few decades increasingly run up against concerns that an overly broad application of trade secret and confidentiality law, and non-competition agreements, may unfairly impact the ability of workers to make a living in their chosen trades or businesses.

During this presentation, we will discuss some of the current thinking with respect to trade secrets, confidentiality, nondisclosure agreements, and noncompetition agreements. Given the rapidly evolving landscape– statutory, regulatory, and case law – our goal will be to offer an overview of where these concepts are, where they appear to be heading. We will then discuss our experiences in this area, and offer suggestions of ways by which the conflict between the protection of valuable intangible assets of a company and the rights and abilities of employees to work can be reconciled.

## *A Short Discussion of Trade Secrets and Confidentiality*

### *Trade Secrets and Confidential Information*

The terms "trade secret" and "confidential information" are often conflated and confused. In general terms, "confidential information" is internal proprietary information and material regarding the business, which the company keeps confidential through nondisclosure agreements or other means. The scope of "confidential information," then, can be defined by agreement as well as practice. "Trade secrets," on the other hand, are more circumspect: under the Uniform Trade Secrets Act, a trade secret "means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[2] Thus, in addition to being maintained in secret, the information must have independent economic value.

This distinction can be critical. The Uniform Act includes a preemption section (Section 7), the interpretation of which has varied between states which have enacted a version of the Uniform Act.[3] Even in those states which find that the Uniform Act preempts common law claims relating to confidential information, contractual agreements not to disclose (as discussed later in this paper) will typically not be preempted by the statute.[4]

The Uniform Trade Secrets Act was first published in 1979 (and amended in 1985), and has been adopted with various modifications in all states except New York and North Carolina.[5] This Act seeks to eliminate uncertainty,[6] and in doing so, codifies the definitions of various terms relating to trade secret protection, provides for remedies, and outlines procedures.

The Defend Trade Secrets Act ("DTSA"), 18 U.S.C. § 1836, *et seq.,* became law on May 11, 2016. It applies to any alleged trade secret misappropriation from that date forward, with the caveat of requiring sufficient nexus to interstate commerce to warrant Federal jurisdiction.[7]

Courts continue to struggle with numerous issues beyond the typical factual determinations in trade secret claims. Among those issues are:

- Identification of Trade Secret: Courts regularly struggle with the degree of specificity which the plaintiff must meet in order to adequately identify its alleged trade secret. "A person claiming rights in a trade secret bears the burden of defining the information for which protection is sought with sufficient definiteness to permit a court to apply the criteria for protection described in this [s] and to determine the fact of an appropriation."[8] Where the plaintiff fails to provide sufficient specificity in its definition of its trade secrets, it becomes impossible both to determine whether there was misappropriation of a trade secret (as opposed to use of general knowledge)[9] and to "fashion a meaningful injunction which would not overly restrict legitimate competition…". [10] Thus, the particularity requirement exists both so that the defendant knows what plaintiff claims to be its trade secret, and so it can defend itself at trial.[11] A determination as to whether the definition suffices is "context-specific,"[12] and relief may be denied,[13] or a case even may be dismissed[14] where the court concludes plaintiff failed to adequately specify the trade secret.

- Knowledge Requirement. Although it might seem obvious that liability for trade secret misappropriation requires knowledge of the trade secret itself, there is a split in authority. The Uniform Act provides definitions of "misappropriation" which on their face call for proof that the accused has knowledge of the trade secret,[15] other courts have concluded that the "knowledge" requirement is merely knowledge that the trade secret was acquired by improper means.[16] Most recently, the Connecticut Supreme Court, when faced with this issue, held "that the defendant's knowledge of the trade secret is an element of a clam of misappropriation . . . and that a defendant cannot 'use' a trade secret for purposes of that statute if the defendant does not have knowledge of the trade secret itself," either actually or constructively.[17]

## *Employee "Tool Kits" and "General Knowledge"*

Courts struggle with the competing interests under which employers seek to protect their trade secret and confidential information regarding which they invested both effort and money; against the ability of employees to "pursu[e] their livelihood in the area of their greatest expertise."[18] The result is a fact-intensive inquiry, where if it is concluded that the claimed trade secret information is "generally known by others" in the industry, it will not support a trade secret claim.[19] This can include customer lists that are generally available or easily derived, *id.;* "vast general knowledge" of the industry involved,[20] and "general knowledge, skill, and experience acquired in . . . employment."[21] As stated by the Pennsylvania Supreme Court,

> "[The employee, upon terminating his employment relationship with his employer, is entitled to take with him 'the experience, knowledge, memory, and skill, which he had gained while there employed. * * * A man's aptitude, his skill, his dexterity, his manual and mental ability, and such other subjective knowledge as he obtains while in the course of his employment, are not the property of his employer and the right to use and expand these powers remains his property unless curtailed through some restrictive covenant entered into with the employer."[22]

By the same token, however, trade secret information of an employer cannot be later used as part of the employee's "tool kit." Because "'the line distinguishing … an employee's general knowledge or skill and an employer's protectable trade secrets . . . may often be difficult to draw,"[23] courts engage in a fact-intensive analysis both of what the claimed trade secret may be, and what the employee did post-employment.[24] Yet, even then, the determination of whether the information was protected or part of the employee's "tool kit" may turn not just on formula and product similarities and chemical uniqueness, but also collateral concerns that affect the court's view of the former employee, including his conduct during the pending litigation.

## The Intersection Between Trade Secret Law and Confidentiality Agreements[25]

When a company shares or discloses trade secrets or confidential information, whether with an employee or with a third party such as a consultant, vendor, potential buyer, joint venturer, or franchisee, the company typically depends on trade secret law and the protections afforded by contract law to ensure that such information is protected from unauthorized use or disclosure. Indeed, nearly all companies, or at least well-represented ones, require employees to sign a confidentiality or non-disclosure agreement as a condition of employment. Such agreements typically follow a standard form or format, reciting that the employee will receive confidential information during employment and requiring the employee to agree to keep such information confidential and not use it or keep it except as expressly authorized.

Such agreements are often essential to the establishment of trade secret protection, and serve as a fairly inexpensive way to prevent (or at least strongly discourage) disclosure. Indeed, even if there is no express non-disclosure agreement, some courts imply one. [26]

Contracts thus play a pivotal, and sometimes conflicting, role in trade secret law. Confidentiality agreements serve an important evidentiary role by assisting trade secret owners in establishing one of the key elements of a trade secret claim: reasonable efforts to maintain secrecy. However, because the existence of an NDA is often pivotal in claims for trade secret misappropriation, companies that own trade secrets are often tempted to draft NDAs that are so broad that they evade the definitional requirements and limitations of trade secret law.

The following outlines some important aspects of the interface between trade secret law and confidentiality agreements of which parties should be mindful:

- Employers sometimes attempt to limit an employee's (or third party's) use of information that, while confidential, sensitive, or proprietary, does not constitute a trade secret or satisfy the statutory definition thereof. Courts struggle with this issue, with the majority concluding that "reasonable" contract restrictions on use or disclosure of information by employees are enforceable even in the absence of a protectable trade secret.[27]

- Many such restrictions, however, may be subject to public policy limitations and some courts have invalidated non-disclosure agreements that purport to prohibit disclosure of information that is not actually confidential.[28]

- Similarly, a number of courts have also held that a confidentiality agreement cannot expand what constitutes a trade secret because "a trade secret is defined by law…not by contract."[29] In fact, as part of its recent, but thus far unsuccessful, effort to ban on non-compete agreements generally, the FTC has also targeted overboard NDAs, providing that "[a] non-disclosure agreement between an employer and a worker that is written so broadly that it effectively precludes the worker from working in the same field after the conclusion of the worker's employment with the employer [might be] a de facto non-compete clause."[30]

Notwithstanding these potential issues, in most circumstances a well-drafted confidentiality agreement will provide broader, and likely better, protection than trade secret law because such an agreement can cover proprietary and non-public information that may not fully satisfy the definition of a trade secret. As one court has stated, "[t]rade secrets are defined by statute, but terms such as confidential and proprietary information are defined by the contract. Thus, a defendant may breach a contract for disclosing confidential information that does not constitute a trade secret."[31] For this reason, any confidentiality agreement should provide that it is intended to cover not only the owner's trade secrets, but also "confidential and proprietary" information as well to ensure the broadest possible protection of the information at issue.

Generally speaking, the subject matter covered by a confidentiality agreement is generally defined or described in one of three ways: (1) the agreement may define what is protected very broadly by simply listing categories of covered information or incorporating a long laundry list of the types of information that are to be deemed confidential; (2) the agreement may define or specifically identify the information at issue with particularity (often in an exhibit or schedule that is itself confidential); or (3) by requiring that the information be specifically marked as confidential. Needless to say, broad, general descriptions may provide broad, general coverage; however, descriptions or definitions that are too broad or general can lead to a dispute about what information is actually covered.

Specific descriptions are "better" in the sense that they avoid ambiguity as to the subject matter that is covered, but also come with some risk. Poor or incomplete drafting may exclude information that should be included. Overly particular or specific agreements are also inflexible and require amendment if a different or new type of confidential information is shared between the parties. And requiring that all information subject to a confidentiality agreement be specifically marked or designated as such provides the benefit of complete specificity, but is certainly the most burdensome to implement and enforce. Failure to properly mark or designate the information could also doom any claim for misappropriation thereof.

To be clear, many courts do enforce confidentiality agreements that feature broad, general descriptions or definitions of the subject information. For example, a federal court has enforced confidentiality agreements protecting "any and all financial, technical, commercial or other information concerning" the company's "business and affairs."[32] The court specifically noted that, while broad, the terms of the agreement were limited by exclusions (typical to confidentiality agreements) of any information recipients learned before the disclosures or information that was or had become publicly available. *Id.* The court also specifically noted that the subject agreements were between sophisticated business entities of relatively equal bargaining power. *Id.*

Some courts take a harder look or adopt a more restrictive view of broadly or generally defined confidentiality provisions when the agreement is between an employer and employee. *See TLS Mgmt. & Mktg. Servs., LLC v. Rodriguez-Toledo*[33] (stating that "overly broad nondisclosure agreements, while not specifically prohibiting an employee from entering into competition with the former employer, raise the same policy concerns about restraining competition as noncompete clauses [because] they have the effect of preventing the defendant from competing with the plaintiff"). The court in *TLS* noted in particular that an NDA between employer and employee is overbroad if it prohibits the use of an employee's general knowledge, or seeks to prohibit disclosure or use of information that is not actually confidential, or covers information the employee obtained from other sources.

As many commentators in this area have noted, confidentiality agreements can present a paradox in the context of a claim for trade secret misappropriation. The existence of a confidentiality agreement is often considered crucial evidence that the owner considered the subject information to constitute a trade secret and that it took the required "reasonable measures" to protect it.[34]

Conversely, however, a confidentiality agreement may undermine such a claim if it fails to cover the specific trade secrets at issue or if the trade secret owner failed to comply with the agreement's obligations (i.e., by failing to limit third-party disclosures, by failing to mark or designate the subject information, or because the disclosure fell outside the term of the confidentiality agreement). For instance, in *nClosures, Inc. v. Block & Co., Inc.*,[35] the Seventh Circuit concluded that nClosures could not use a breach of contract claim to prevent its former collaborator, Block, from using certain information to develop a competing device because "nClosures did not engage in reasonable steps to protect the confidentiality of" that information. The Court stated that it "will enforce [confidentiality] agreements only when the information sought to be protected is actually confidential and reasonable efforts were made to keep it confidential." The parties had "sign[ed] a confidentiality agreement at the outset of their business relationship, [but] no additional confidentiality agreements were required of individuals who accessed the design files" at later points in the collaboration, and the design drawings were not labeled as confidential. The Seventh Circuit concluded that since "nClosures did not engage in reasonable steps to protect the confidentiality of its proprietary information, ... the confidentiality agreement with Block [was] unenforceable." *Id.* Thus, while it was clear that the dispute between the parties did involve information eligible for trade secret protection, the way in which plaintiff nClosures administered that agreement doomed its trade secret claim.

Finally, while often thought of as "form" documents, it is important to understand that the language employed in confidentiality agreements does actually matter. In *SiOnyx LLC v. Hamamatsu Photonics K.K.*,[36] a case involving the breach of a non-disclosure agreement, the Federal Circuit transferred ownership of both domestic and foreign patents to the disclosing party because the NDA at issue provided that ownership of "all patent, copyright, trademark, trade secret, and other intellectual property rights in, or arising from, such Confidential Information" belong to the plaintiff as disclosing party.

In summary, it is important to understand that while the protection of trade secrets is often tied to contract law, such protection can be undermined by contract principles as well. A well-advised company should ensure that its confidentiality agreements carefully define what information qualifies for protection, that the contractual obligations imposed on the receiving party are "reasonable" in the context of the parties' relationship, and that it has taken all necessary steps to ensure that it complies with all contractual conditions as well.

## The Use, and Regulation, of Noncompetition Agreements[37]

Non-compete agreements are contractual provisions that restrict an employee's engagement in specified activities within a defined time period and geographic scope following termination of employment. Employers have traditionally utilized these agreements, in conjunction with non-disclosure and confidentiality covenants, to safeguard proprietary information.

Historically, non-compete agreements have been common in industries where innovation and client relationships are critical, such as technology, healthcare, and finance. Though intended to protect business interests, they are often criticized for being overly broad and restrictive, potentially hindering workers' career advancement and economic growth.[38] As legal and societal views shift, non-compete agreements face increasing scrutiny for their impact on worker mobility, talent acquisition, and career development.

In response to these concerns, the Federal Trade Commission (FTC) issued a final Rule on April 23, 2024, prohibiting employers from entering into, enforcing, or attempting to enforce post-employment non-compete clauses, with certain exceptions.[39] The Rule invalidates all existing non-compete agreements, except those involving "senior executives," and classifies such clauses as "unfair methods of competition" under Section 5 of the FTC Act."[40] Employers are required to notify employees that non-compete clauses will no longer be enforced.[41]

The Rule defines "non-compete clause" as a term or condition of employment that either "prohibits" a worker from, "penalizes" a worker for, or "functions to prevent" a worker from (A) seeking or accepting work in the United States with a different person where such work would begin after the conclusion of the employment that includes the term or condition; or (B) operating a business in the United States after the conclusion of the employment that includes the term or condition.[42]

However, the Rule has notable exceptions. It does not apply to non-compete clauses related to the bona fide sale of a business entity or to causes of action that existed before the Rule's effective date.[43] Additionally, enforcing or attempting to enforce a non-compete is not deemed an unfair method of competition if there is a good-faith belief that the Rule does not apply.[44] While the Rule prohibits non-competes, other agreements such as non-disclosure, non-solicitation, and training repayment agreements may still be permitted, provided they do not function as non-competes.[45]

Legal challenges to the FTC's Rule emerged promptly after its adoption.[46] On August 20, 2024, in the case of *Ryan, LLC v. FTC*, Judge Ada Brown of the U.S. District Court for the Northern District of Texas vacated the Rule, ruling that the FTC had exceeded its statutory authority.[47] The court found the Rule to be arbitrary, and capricious. As a result, the court issued an order and final judgment setting aside the final Rule nationwide and ordering that it not be enforced or otherwise take effect on September 4, 2024 or thereafter.

Although the final Rule has been temporarily set aside, ongoing legal challenges contribute to persistent uncertainty. The ruling in *Ryan, LLC v. FTC* by Judge Ada Brown contradicts the Pennsylvania court's July decision, which had upheld the FTC's authority to issue the Rule and rejected the plaintiff's request for injunctive relief.[48] These conflicting district court decisions are expected to be appealed, potentially leading to divergent appellate rulings. An appeal by the FTC is anticipated.[49] This appeal could be complicated by the Supreme Court's recent decision in *Loper Bright Enterprises v. Raimondo*, which overturned Chevron deference, thus subjecting the FTC's Rule to stricter judicial review.[50] The ultimate fate of the Rule will depend on the appeal's outcome and future political developments

In the interim, the FTC has expressed its intention to continue addressing anticompetitive non-compete clauses on a case-by-case basis. Thus, while the broad prohibition is currently on hold, the agency remains active in tackling harmful non-compete practices.[51]

Employers are currently relieved from adhering to the final Rule and do not need to notify employees that their non-compete agreements are void. However, this period of relief offers an opportunity for employers to reevaluate their use of non-compete clauses. They should ensure compliance with state laws and consider alternative measures such as garden leave, enhanced confidentiality agreements, non-solicitation provisions, and trade secret protection strategies. As state legislatures may continue to impose restrictions on non-competes and judicial scrutiny remains intense, employers should stay informed about evolving legal standards in their jurisdictions.

### *The Origins of Non-compete Agreements*

Non-compete agreements trace their roots back to the early fifteenth century.[52] However, the modern legal framework for these agreements in the United States and England stems largely from the 1711 case of *Mitchel v. Reynolds*.[53] This case involved a plaintiff who bought a bakehouse with the condition that the seller not bake for five years, with a £50 penalty for breach. Chief Justice Parker of the Queen's Bench established a key legal principle: while there is a general presumption against the validity of trade restraints, this presumption can be overcome if the restraint is supported by valuable consideration and is reasonable and beneficial.[54] This landmark ruling distinguished between broadly restrictive contracts, which were void, and those limited in scope—by time, place, or parties—which were enforceable.

Since the early nineteenth century, states have regulated non-compete agreements, allowing each to create policies that fit their specific needs and economic conditions.[55] One of the first significant U.S. Supreme Court cases on this issue, *Oregon Steam Navigation Company v. Winsor,* upheld a non-compete clause related to the sale of a steamship, clarifying that, while general restraints of trade are illegal, partial restraints may be valid if reasonable and supported by consideration. This decision established the reasonableness standard that many states still apply today.[56]

*States Reevaluate Their Non-compete Laws*

In recent years, states have significantly reevaluated their non-compete laws.[57] Currently, California, Minnesota, North Dakota, and Oklahoma ban non-compete agreements entirely, while other states and Washington, D.C. impose various restrictions.[58] California has strengthened its long-standing ban on non-compete agreements with the passage of S.B. 699 and A.B. 1076, which not only codify existing caselaw but also allow employees to sue for enforcement attempts, even for agreements from other states, with the possibility of recovering attorneys' fees and costs; these amendments, effective January 1, 2024, also mandate that employers provide written notice to current and former employees with non-compete clauses by February 14, 2024.[59]

Other states have followed California's example. For instance, Colorado's Restrictive Employment Agreements Act (HB 22-1317), passed in August 2022, voids non-compete agreements unless they are for highly compensated employees or designed to protect trade secrets.[60] Similarly, the District of Columbia and Minnesota have enacted laws that limit or prohibit non-compete agreements, with New York passing legislation in 2023, only to have it vetoed by the governor for being overly broad.[61]

Washington State's SB 5935, effective June 6, 2024, broadens the definition of "noncompetition covenant" to include any extensive restriction on business activities. It also clarifies notice requirements and addresses loopholes related to choice-of-law.[62]

This year, state legislative efforts on non-compete agreements vary widely, with some proposing near-complete bans, others seeking limitations based on wage thresholds, job classifications, and notification requirements, and the healthcare industry experiencing targeted regulation across several states.[63] The result is a complex patchwork of state-level regulations that challenges employers operating across different jurisdictions.

*Federal Oversight of Non-Compete Agreements*

Federal legislative efforts to restrict non-compete agreements began in 2015.[64] Although these bills stalled, federal interest grew after Obama-era investigations into non-competes.[65] This momentum led to President Biden's Executive Order 14036, urging the FTC to limit the use of non-compete clauses.[66] Six non-compete bills are currently pending in Congress, including the Workforce Mobility Act of 2023 in the Senate, which would ban most non-competes except for business sales.[67]

*Regulatory and Enforcement Actions*

The lack of federal legislation has not stopped regulatory and enforcement actions by administrative agencies. Indeed, on April 23, 2024, the FTC adopted a final Rule banning non-compete clauses for most workers.

Under §910.1 of the Rule, a "noncompete clause" means:

1. A term or condition of employment that prohibits a worker from, penalizes a worker for, or functions to prevent a worker from[68]:

(a.) seeking or accepting work in the United States with a different person where such work would begin after the conclusion of the employment that includes the term or condition; or

(b.) operating a business in the United States after the conclusion of the employment that includes the term or condition.

2. For the purposes of this part 910, term or condition of employment includes, but is not limited to, a contractual term or workplace policy, whether written or oral.[69]

The definition is nuanced. It only prohibits restrictions that apply post-employment, allowing employers to maintain competitive activity restrictions on current employees. Employers can also likely restrict employees on "garden leave" from accepting work with competitors while still employed and receiving pay.

Additionally, the definition confines the ban to restrictions on work or business within the United States, leaving post-employment restrictions on international work or business unaffected.

Third, the Rule defines "worker" to include "an employee, independent contractor, extern, intern, volunteer, apprentice, or a sole proprietor who provides a service to a person" and "a natural person who works for a franchisee or franchisor," but excludes "a franchisee in the context of a franchisee-franchisor relationship." Thus, the Rule prohibits employers from entering into or enforcing non-compete clauses with various types of workers, not just employees.[70]

Fourth, the Rule bans any "term or condition of employment that prohibits a worker from, penalizes a worker for, or functions to prevent a worker from" competing. This broad language seems to encompass not only non-compete clauses in employment or separation agreements but also any provision that could inhibit a worker's ability to compete. This may include overly restrictive non-solicitation clauses, training repayment provisions that hinder job opportunities in the worker's field, and "forfeiture for competition" clauses found in deferred compensation or equity agreements that penalize employees for competing after leaving their job.

The Rule not only bans future non-compete agreements but also applies retroactively, prohibiting the enforcement of existing non-compete clauses as of the effective date, except for those involving "senior executives." The Rule defines a senior executive as a worker who (1) held a "policy-making position" and (2) received at least $151,164 in annual compensation from the employer in the preceding year (or annualized for that year). A "policy-making position" includes the business entity's president, CEO, or equivalent, or any other officer with policy-making authority over the business entity (excluding subsidiaries or affiliates). Employers may enforce existing non-compete agreements with senior executives as of the Rule's effective date but cannot enter into new non-compete agreements with them after this date.[71]

Nearly all non-compete clauses are unenforceable, whether created before or after the Rule's effective date, with three specific exceptions: (1) non-competes related to the bona fide sale of a business or its assets, (2) clauses tied to causes of action that accrued before the Rule's effective date, and (3) enforcement based on a good faith belief that the Rule does not apply.[72]

The Rule does not override state laws on non-compete clauses, except where state laws permit non-compete clauses deemed unfair under Section 910.2(a) or conflict with the notice requirement in Section 910.2(b).[73] Additionally, the Rule is severable, meaning that if any part is found invalid or unenforceable, or if enforcement is stayed pending further FTC action, the remaining provisions will still apply.[74]

Employers are not required to formally rescind existing non-compete agreements but must notify employees that these agreements are no longer enforceable.[75] The FTC has provided a model notice for employers to use.

*DOJ's Antitrust Concerns and Recent Litigation*

The DOJ Antitrust Division has raised concerns about non-compete agreements as potential antitrust violations. In a recent case in Nevada, the DOJ argued that non-compete clauses between a large medical group and its physician-employees might constitute unlawful horizontal agreements between competitors. The DOJ contended that these clauses, which restricted the practice of anesthesiologists within 25 miles of certain medical facilities, could stifle competition rather than protect legitimate business interests.[76] However, federal antitrust challenges to non-competes remain rare, and some judges have questioned the DOJ's involvement in private litigation.[77]

*NLRB's Position on Non-Competes*

In General Counsel Memorandum 23-08, issued on May 30, 2023, National Labor Relations Board ("NLRB") General Counsel Abruzzo argued that overly broad non-compete agreements unlawfully restrict employees' rights under Section 7 of the National Labor Relations Act by discouraging them from seeking better job opportunities, organizing, bargaining, or finding new employment. The memo reflects the General Counsel's interpretation and not the law itself. The Board's decisions will ultimately determine when non-competes violate the Act, potentially leading to legal challenges.[78]

*Trends in Non-compete Agreement Enforcement and Judicial Approaches*

Courts also scrutinize non-compete agreements closely. The law encourages employee mobility, upholding the idea that "[o]ur free economy is based upon competition."[79] These agreements are generally enforced only if they are "reasonable in time and area," necessary to protect the employer's legitimate interests, not harmful to the public, and not unreasonably burdensome to the employee.[80] Courts assess their reasonableness based on various factors. For instance, the Fourth Circuit applies a three-part test in Virginia:

1. Is the restraint necessary to protect a legitimate business interest of the employer?
2. Is it not unduly harsh on the employee's ability to earn a living?
3. Does it align with public policy?[81]

The Seventh Circuit's test includes:

1. Is the restraint necessary to protect the employer's legitimate interests?
2. Is the time restriction reasonable?
3. Is the territorial scope reasonable?
4. Is the restraint overly harsh or oppressive on the employee?
5. Is it consistent with public policy?[82]

The enforceability of an agreement with an unreasonable covenant depends on the doctrine adopted by the state court. Courts typically choose from three approaches when dealing with such covenants[83]:

1. **Red Pencil Doctrine**: Under this approach, if any part of the covenant is deemed unreasonable, the entire agreement is invalidated. States such as Arkansas, Nebraska, and Virginia follow this doctrine.

2. **Blue Pencil Doctrine**: This approach allows courts to strike only the unreasonable provisions of the agreement while keeping the rest enforceable. States like Arizona, Indiana, Maryland, North Carolina, and Louisiana use this method.[84]

3. **Purple Pencil Doctrine (Reformation)**: Also known as the reformation doctrine, this flexible approach allows courts to modify or rewrite the covenant to align with the parties' original intent and make it enforceable under the law. Unlike the blue pencil doctrine, which only removes unenforceable provisions, the purple pencil doctrine permits comprehensive rewriting to ensure enforceability. A majority of the states adopt this reformation approach.[85]

The severest option is to "red pencil" the provision (eliminating an entire covenant if any part of it is overbroad). The most forgiving approach is the "purple pencil" that adds new language to render an overbroad agreement acceptable.

There has been a growing national trend among state and federal courts to resist or outright refuse to alter (commonly referred to as "blue pencil") the terms of non-compete agreements that are unenforceable in order to make the restrictive covenant enforceable on the whole. For example, in 2015 and 2016, two state Supreme Courts explicitly rejected the doctrine, highlighting concerns about its negative impact on employees, employers, and the judicial system.[86]

In 2015, the Nebraska Supreme Court, in *Unlimited Opportunity, Inc. v. Waadah*, rejected the application of the blue pencil doctrine to modify an unreasonable non-compete agreement. The case involved a clause barring Waadah from operating a similar business within Jani-King's territory for two years and in any other Jani-King territory for one year. The court found the territorial restriction excessively broad and criticized the blue pencil doctrine for encouraging excessive litigation and creating uncertainty in employment relationships. Instead of reforming the agreement, the court decided it should either be enforced as written or not at all, reflecting concerns about public policy and the potential negative impact on both parties.

In *Golden Road Motor Inn, Inc. v. Islam*, the Nevada Supreme Court found a non-compete agreement overly broad. The agreement barred a casino host from working with any gaming establishment within 150 miles for one year after leaving employment. Despite the employee's subsequent actions of misappropriating proprietary information, the court ruled that the agreement was not reasonably tailored to protect the employer's legitimate interests. The court refused to blue pencil the agreement, emphasizing that preserving the parties' original intent and conserving judicial resources aligns with Nevada's policy favoring employee mobility.[87]

In March 2016, the North Carolina Supreme Court, in *Beverage Systems of the Carolinas, LLC v. Associated Beverage Repair, LLC*, reaffirmed its strict interpretation of the blue pencil doctrine. The court ruled that it cannot unilaterally amend unreasonable non-compete agreements, even if the agreement allows for modification. Since removing the unreasonable territorial restriction left no enforceable terms, the court chose not to enforce the agreement. It criticized the idea of rewriting contracts, emphasizing that its role is to interpret existing terms, not to create new ones. The court warned that substituting its own terms would undermine contract integrity and lead to further complications.[88]

On February 25, 2022, the Wyoming Supreme Court issued a decision in *Hassler v. Circle C Resources* that prohibits courts from revising, or "blue penciling," non-compete agreements to make them reasonable and enforceable. This ruling overrules *Hopper v. All Pet Animal Clinic*, Inc., which had allowed courts to narrow non-compete terms. The court emphasized that public policy and "established black letter rules of contract interpretation" support banning such revisions.[89]

The Delaware Court of Chancery has recently shown a trend of refusing to "blue pencil" overly broad non-compete agreements. In cases like *Kodiak Building Partners, LLC v. Adams* and *Ainslie v. Cantor Fitzgerald, LP*,[90] the court declined to reform unreasonable agreements, emphasizing that such modifications undermine the integrity of contracts. Similarly, in *Intertek Testing Services NA, Inc. v. Eastman*, the court refused to enforce or modify a non-compete with a global scope, signaling a shift toward rejecting overly broad agreements rather than attempting to adjust them.[91]

*Legal and Contractual Strategies Beyond Non-Compete Agreements*

With the Federal Trade Commission's (FTC) recent adoption of a Rule aimed at banning employee non-compete agreements, alongside other regulatory and legislative efforts to curtail their enforceability, businesses are advised to evaluate alternatives to non-compete agreements and to proactively audit, enhance, and implement robust measures to safeguard trade secrets and other confidential business information. This proactive stance will ensure that proprietary information remains protected should non-compete agreements be entirely abolished.

To effectively protect your intellectual property and confidential information if non-compete agreements become less enforceable, consider the following measures:

**Determine whether your business entity falls under the FTC's jurisdiction.** The FTC's authority to investigate and enforce applicable laws extends to nearly all natural persons and entities "engaged in or whose business affects commerce," except for private banks, insurance companies, non-profits, and common carriers in transportation, communications, and air travel.

**Review relevant state and local laws on non-compete clauses.** Currently, four states have enacted complete bans, while other states impose various limits or restrictions.

**Employers should identify which past and current workers have non-compete clauses**. If the Rule is enforced, employers will need to notify these employees that their non-compete restrictions are no longer enforceable. The FTC Rule does not clarify how far back employers should review their records.

**Update Employment Agreements:** Update "Senior Executives"' non-compete agreements (as the FTC Rule makes its way through the appellate process) to make sure the agreements are drafted in a manner that can support the legitimate business interests for those restrictions, including the jurisdictions and related corporate entities that are covered. Avoid relying on a court to blue pencil or modify the restriction as a guaranteed fail-safe.

In light of increased scrutiny on non-compete clauses, review and update your existing agreements to include Non-Disclosure, Non-Solicitation, and Confidentiality provisions. For rank-and-file employees without non-compete agreements (which may be unenforceable under the FTC Rule), use confidentiality, non-disclosure, and non-solicitation clauses to protect your confidential information.[92]

**Evaluate and Revise NDAs:** Ensure your NDAs are current and adequately address your business needs. The FTC's final Rule on non-compete clauses acknowledges NDAs as a viable means for protecting valuable investments. However, it bans NDAs that are excessively broad and functionally equivalent to non-compete agreements.[93] NDAs should be specific, targeting the protection of confidential information without impeding an employee's ability to seek new employment or start a business.

**Employ Non-Solicitation Agreements:** Use non-solicitation agreements in conjunction with NDAs. As restrictions on non-compete agreements become more stringent, non-solicitation agreements will play a crucial role in maintaining your competitive edge. Ensure these clauses are narrowly tailored to avoid overly broad restrictions that may render them unenforceable under the FTC Rule.[94]

**Enhance Confidentiality Agreements:** Customize your Confidentiality Agreements to reflect your unique business needs and proprietary information. Avoid generic templates and ensure your agreements specifically reference your competitive advantages and trade secrets. Tailored agreements will enhance enforceability and reduce challenges based on vagueness. Be sure to review the recent National Labor Relations Board (NLRB) decision on restrictions for confidentiality and non-disparagement provisions in severance agreements.[95]

**Incorporate Training Repayment Agreements (TRAPs):** Consider adding TRAPs to your employment contracts to protect your investment in employee training. TRAPs require employees to reimburse training costs if they leave within a specified timeframe. Ensure the repayment terms are reasonable and linked directly to training costs to avoid issues of punitive measures or non-compete functionality.[96]

**Implement Garden Leave Agreements:** Garden leave agreements involve compensating outgoing employees while restricting their ability to work for competitors during the notice period. According to the FTC, garden leave agreements do not constitute non-compete agreements if they continue the employee's status as employed with reduced duties or access, rather than imposing post-employment restrictions.[97]

**Conduct Thorough Exit Interviews**: Perform detailed exit interviews to ensure departing employees return all company property and do not retain sensitive information. This includes checking for thumb drives, electronically stored data, and physical documents. Require departing employees to sign certifications affirming compliance with confidentiality obligations and the return of company property. During exit interviews, explain the terms and significance of NDAs and other restrictive covenants to departing employees. This ensures they understand their obligations and the importance of protecting company information. For employees with access to highly sensitive information, consider a forensic review of their recent data usage and hard drives.

**Prevent Misuse of External Devices:** In a post-non-compete world (if and when we get there), businesses may find it advantageous to implement well-defined, employee-acknowledged, and monitored restrictions on the use of peripheral devices. Given the decline in reasons for using such devices as cloud storage solutions become standard, companies might consider outright prohibiting personal peripheral device use. Clear and consistently communicated prohibitions on employee use of these devices can be enforced unless exceptional circumstances arise. Additionally, companies could provide company-owned storage devices that must be returned upon employee separation and restrict the use of personal devices to safeguard sensitive information.

**Conduct an IP Audit:** Regularly assess your intellectual property assets, policies, and procedures. This documentation helps safeguard your competitive advantage and addresses potential misappropriation.

Suggested Solutions

## *Suggested Approaches and Solutions*

As outlined above, statutory and contractual tools exist to allow businesses to protect their valuable information and materials. Choosing the best approach from among those tools can be challenging, but given the judicial burdens and regulatory oversight which will apply should a company choose to prevent a departing employee from using what it claims are its trade secrets, an analysis of what is valuable, what you need to protect, who needs access, and what you are prepared to do should take place long before you are concerned about possible employee malfeasance.

Thus, the first step is to analyze and determine what *are* your important trade secrets. While this list could be exhaustive, prudence warrants some discretion, given the next steps. Then, the company should identify precisely what they are with particularity, assemble the documentary and other evidence supporting that they are a "trade secret," and then decide how are they are to maintained, who has access, and what steps are to be taken to ensure their confidentiality. If there is any doubt about whether you truly understand how to describe your trade secrets with specificity, going through that exercise (at least for the important ones which may be the subject of lawsuits) before the stress of litigation is appropriate. Then, ensure that the information is available to only those with a need to know, and that it is kept secure. Update that information as your business, products, methods, formulae, and processes develop. And, while you do not want to reveal broadly what your trade secrets are, a regular education process is appropriate, in order that you can later explain to a court how it is that your employees were aware that certain types of information were a company trade secret.

For that confidential information which may not rise to the level of "trade secrets," you should keep in mind that some courts have held that absent a contractual obligation, claims for misappropriate of "confidential information" may be precluded by the Uniform Trade Secrets Act. Whether your state is one that follows that rule or not, it is just as important to identify your "confidential information," and take steps as outlined above to ensure its security.

For those who must have access to all or a portion of a trade secret or confidential information in order to do their jobs, nondisclosure agreements are critical. While it may be somewhat comforting to draft them in a broad fashion which you "know" will cover all of important information, as discussed above, doing so runs the risk of having a court determine that the list of "trade secret" and "confidential information" is so broad as to not give the employee notice and/or to be meaningless,[98] or that its scope extends to information or knowledge which falls within the "tool kit" of "general knowledge and experience" which an employee may take with her when she leaves. At best, broad language creates uncertainty; at worst, a court may be less inclined to rule for the former employer when it believes it has over-reached and is using a non-disclosure agreement or a trade secret claim as a stealth perpetual noncompete.

Noncompetition agreements are, in many states and at present, a valuable tool. Here again, ensuring that they meet the limitation requirements of the jurisdictions in which they may be applied is critical. For those persons who are already employees but with whom the company seeks a noncompetition agreement, evaluate current law in the applicable jurisdiction regarding requirements for new consideration.

As much of this litigation is within courts that view themselves as courts of equity, and given the "reasonable" language that permeates the statutes and cases, it is prudent to consider how your company will be viewed when it seeks to enforce its rights to trade secrets and confidential information. If the former employee can establish that the company is over-reaching in its claims, that it did not adequately educate its employees about what is – and is not – considered protectible, and that the effect of what the employer seeks to do is to drive the employee from his or her chosen area of expertise without paying consideration to do so, a court may find that notwithstanding all of the efforts made to secure information, the employee (or the company for whom he or she now works) should not be liable. By the same token, cases in which there is little direct evidence of misappropriation may be won if the departed employee acts in a manner which leads the court to distrust him.[99] At the end of the day, in this fact-intensive area of litigation, then, clear delineations, probative evidence, and credibility may well be the means of prevailing in a close case.

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[1] By Joseph G. Fortner, Jr., Halloran & Sage LLP, Hartford, Connecticut
[2] Uniform Trade Secrets Act, Section 1(4).
[3] Compare Connecticut (holding that its version of the Uniform Act "preempts noncontractual civil claims against a former employee based on the acquisition, disclosure, or use of confidential information that does not rise to the level of a trade secret," *Dur-A-Flex, Inc. v. Dy*, ___ A. 3d ___, 2024 WL 3280651, *36 (Conn. 2024) and New Hampshire, *Mtge. Specialists, Inc. v. Davey*, 904 A.2d 652 (N.H. 2006); with Washington (holding that even if common law breach of confidentiality claims are based upon same facts as trade secret claims, the Uniform Act does not preempt such claims, *Modumetal, Inc. v. Xtalic Corporation,* 425 P.3d 871, 882 (Wash. App. 2018); Hawaii (claim will survive to the extent it alleges wrongful conduct independent of the trade secret misappropriation, *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., Inc.*, 235 P. 3d 310, 328 (Hawaii 2010)); and Oklahoma, *Am. Biomedical Group, Inc. v. Techtrol, Inc.*, 374 P.3d 820.
[4] *See Dur-A-Flex, supra* ("CUTSA preempts *noncontractual* civil claims against a former employee") (emphasis added); *see also* Uniform Act, Section 7(b).
[5] https://www.uniformlaws.org/committees/community-home?CommunityKey=3a2538fb-e030-4e2d-a9e2-90373dc05792
[6] *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., Inc.*, 235 P. 3d at 319.
[7] *BIOMILQ, Inc. v. Guiliano,* 2024 WL 1698061, *21 (Sup. Ct., N. Car., Business Court, 2024) (conclusory interstate commerce allegations insufficient to confer subject matter jurisdiction).
[8] *Dur-A-Flex, supra*, *26 (quoting Restatement (Third) of Trade Secrets, § 39, comment (d); ˆ*see also Wells Fargo Insurance Services USA, Inc. v. Link,* 827 S.E.2d 458, 473-74 (N. Car. 2019).
[9] *See also Mattel, Inc. v. MGA Entertainment, Inc.*, 782 F.Supp.2d 911, 967 (C.D. Cal 2011).
[10] *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 897-98 (Minn. 1983).
[11] *Big Vision Private Ltd v. EI DuPont De Nemours and Co.*, 1 F.Supp.3d 224, 257-58 (S.D.N.Y. 2014); *aff'd* 610 F.Appx. 69 (2d Cir. 2015).
[12] *Mallet & Co. v. Lacayo,* 16 F.4th 364, 387 (3rd Cir. 2021).
[13] *Litton Systems, Inc. v. Sundstrand Corp.,* 750 F.2d 952, 956 (Fed. Cir. 1984).
[14] *See Fortunet, Inc. v. Coronel,* 2024 WL 3841864, *4 (Nev. 2024).
[15] *See Silvaco Data Systems v. Intel Corp.,* 109 Cal. Rptr. 3d 27, 41-43 (Cal. App. 2010
[16] *ClearOne Communications, Inc. v. Chiang,* 2007 WL 4376125, *2, n.3 (D. Utah 2007).
[17] *Dur-A-Flex v. Dy, supra,* * 23.
[18] *Dur-A-Flex, Inc. v. Dy,* ___ A.3d ___, 2024 WL 3280651, *24 (Conn. 2024).
[19] *See System Development Services, Inc. v. Haarmann,* 389 Ill. App. 3d 561, 572 (Ill App., 2009).
[20] *Bendinger v. Marshalltown Trowell Co.*, 338 Ark. 410, 422 (Ark. 1999).
[21] *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W. 2d 274, 278-79 (Ct. App. Texas 1988).
[22] *Van Prod. Co. v. Gen. Welding & Fabricating Co*., 213 A.2d 769, 776 (1965) (citations omitted)..
[23] *Mallet & Co., supra,* 16 F.4th at 386.
[24] *See Dur-A-Flex, supra,* *7. Factors considered by the Court there included whether the ingredients in the new product formula differed significantly from those in the protected product; whether the protected product was created in a new field of endeavor; whether the defendant personally developed the product; and whether the method of making the protected product served as a starting point for the new product. *Id.*
[25] By Douglas J. Halijan, Burch, Porter & Johnson, PLLC, Memphis, Tennessee.
[26] *See, e.g., Winston Research Corp. v. 3M Co.,* 350 F.2d 134 (9th Cir. 1965) (noting that "an obligation not to disclose may arise from circumstances other than communication in confidence by the employer. It may also rest upon an express or implied agreement. In the present case, an agreement not to disclose might be implied from plaintiff's elaborate efforts to

maintain the secrecy of its development program, and the employees' knowledge of those efforts and participation in them.")

[27] *See, e.g., Celeritas Techs., Ltd. v. Rockwell Int'l Corp.,* 150 F.3d 1354, 1358 (Fed. Cir. 1998) (upholding jury's conclusion that defendant breached non-disclosure agreement when using information, despite evidence that the information was ascertainable from commercial products and largely disclosed in patents); *Bernier v. Merrill Air Eng'rs*, 770 A.2d 97, 104 (Me. 2001) (enforcing non-disclosure agreement that prohibited "use of information that does not rise to the level of a trade secret but is more than general skill"); *Eng'g Excellence, Inc. v. Meola*, No. 01AP-1342, 2002 WL 31248192, at *5 (Ohio Ct. App. Oct. 8, 2002) (finding that "confidential information does not have to rise to the level of a trade secret in order to be the subject of a valid non-disclosure agreement between employer and employee" and concluding that it could extend to any business information "not publicly disseminated" by the employer (quoting *Procter & Gamble Co. v. Stoneham*, 747 N.E.2d 268, 277 (Ohio Ct. App. 2000)); 12 ROGER MILGRIM, MILGRIM on TRADE SECRETS §3.05[1][a], at 3-209 to 3-210.

[28] See *TLS Mgmt. & Mktg. Servs. v. Rodriguez-Toledo*, 966 F.3d 46 (1st Cir. 2020); *Brown v. TGS Mgmt. Co*., 271 Cal. Rep. 303 (Ct. App. 2020); *Nagler v. Garcia*, 370 F.Appx. 678, 681 (6th Cir. 2010); *Assured Partners v. Schmitt*, 44 N.E.3d 463, 475-76 (Ill. Ct. App. 2015); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39 cmt. d, 41 cmt. d (1995) (noting cases where "courts have enforced nondisclosure agreements directed at information found ineligible for protection as a trade secret," but suggesting that public policy may render agreements purporting to protect information in the public domain unenforceable).

[29] *Capricorn Mgmt. Systems, Inc. v. Gov. Emps. Ins. Co.*, 2019 WL 5694256, at *17 (E.D.N.Y. 2019).

[30] *See* Federal Trade Commission*, FTC Proposes Rule to Ban Noncompete Clauses, Which Hurt Workers and Harm Competition* § 910.1(b)(2)(1) (Jan. 5, 2023).

[31] *Albert's Organics, Inc. v. Holzman*, 445 F.Supp.3d 463, 476 (N.D. Cal. 2020).

[32] *PeopleFlo Manufacturing, Inc. v. Sundyne*, LLC, 2021 WL 3129264, at *8 (N.D. Ill. 2021).

[33] 966 F.3d 46, 57 (1st Cir. 2020).

[34] See *ExpertConnect, L.L.C. v. Fowler,* 2019 WL 3004161, at *6 (S.D.N.Y. 2019) (holding that plaintiff plausibly alleged a claim for trade secret misappropriation where defendants obtained information "through improper means—specifically, by breaching their NDAs," and then used that information to steal plaintiff's clients).

[35] 770 F.3d 598, 602 (7th Cir. 2014).

[36] 981 F.3d 1339, 1352 (Fed. Cir. 2020).

[37] By Clementine Uwabera, Stafford Rosenbaum, Madison, Wisconsin.

[3838] Kenneth J. Vanko, "*You're Fired! And Don't Forget Your Non-Compete . . . ": The Enforceability of Restrictive Covenants in Involuntary Discharge Cases*, 1 DEPAUL BUS. & COM. L.J. 1, 2 (2002); Ryan Greenberg, *In Support of Ureaa: The Case for Timely, Uniform, and Comprehensive Action Against Restrictive Employment Agreements, 31* U. Miami Bus. L. Rev. 119, 132 (2022)(discussion of the increased scrutiny of large companies, such as Jimmy John's and Amazon, for their use of broad and abusive restrictive employee agreements).

[39] 16 C.F.R § 910.2(a)(1)(i) and § 910.2(a)(2)(i)) of the Non-Compete Clause Rule, 89 Fed. Reg. 38342-01, 561-568 (April 23, 2024), available at https://www.ftc.gov/system/files/ftc_gov/pdf/noncompete-rule.pdf

[40]§ 910.1 defines "senior executive" as workers earning over $151,164 annually who are in a "policy-making position," meaning those with final authority to make decisions that significantly affect the business entity.

[41] § 910.2(b)(1).

[42]§ 910.1 defines "worker" to include employees, interns, externs, independent contractors, volunteers, apprentices, and sole proprietors, whether paid or unpaid. Notably, "worker" does not include franchisees in a franchisor-franchisee relationship but does include employees of franchisees.

[43] § 910.3(a)-(b)

[44] § 910.3(c).

[45] Non-Compete Clause Rule, 89 Fed. Reg. 38342-01, 80-85 (April 23, 2024), available at https://www.ftc.gov/system/files/ftc_gov/pdf/noncompete-rule.pdf

[46] *See Ryan, LLC v. Federal Trade Commission*, Case No. 3:24-cv-00986, filed first, on the day of the announcement in the United States District Court for the Northern District of Texas; *Chamber of Commerce of the United States of America, et al. v. Federal Trade Commission*, Case No. 6:24-cv-00148, filed the next day in in the United States District Court for the Eastern District of Texas (Tyler Division); *ATS Tree Services, LLC v. Federal Trade Commission, et al.*, Case No. 2:24-cv-01743, filed on April 25, 2024

in the United States District Court for the Eastern District of Pennsylvania; *Properties of the Villages, Inc., v. Federal Trade Commission*, No. 5:24-CV-316-, 2024 WL 3870380 filed on June 21, 2024 in the United States District Court, M.D. Florida; Moreno, "Business Groups Sue to Stop F.T.C. From Banning Noncompete Clauses," nytimes.com (Apr. 24, 2024), available at https://www.nytimes.com/2024/04/24/business/lawsuit-ftc-noncompete-ban.html.

[47] *Ryan, LLC v. Fed. Trade Comm'n*, No. 3:24-CV-00986-E, 2024 WL 3879954 (N.D. Tex. Aug. 20, 2024).

[48]*ATS Tree Servs., LLC v. Fed. Trade Comm'n*, No. CV 24-1743, 2024 WL 3511630, at *19 (E.D. Pa. July 23, 2024)

[49] *See generally* Federal Trade Commission, Non-Compete Clauses: What You Need to Know website, https://buildbackbetter.gov://www.ftc.gov/news-events/features/noncompetes. https://www.ftc.gov/news-events/features/noncompetes (last visited September 3, 2024).

[50] 144 S. Ct. 2244 (2024)

[51] Federal Trade Commission, Non-Compete Clauses: What You Need to Know, https://www.ftc.gov/news-events/features/noncompetes (last visited Sept. 3, 2024).

[52] *See* Harlan M. Blake, *Employee Agreements Not to Compete*, 73 Harv L.Rev. 625, 631-632 (1960) (discussing cases from as early as 1414 that held masters could not impose restrictive covenants on their apprentices).

[53] 24 Eng. Rep. 347 (Q.B. 1711).

[54] *See Outsource Int'l, Inc. v. Barton*, 192 F.3d 662, 669 (7th Cir. 1999) (discussing that under English common law, non-compete clauses were referred to as "restraints of trade" and were enforceable only if deemed "reasonable" in terms of time and geographic scope, as illustrated by cases such as *Mitchel v. Reynolds*, 1 P. Wms. 181, 24 Eng. Rep. 347 (K.B. 1711), and *Horner v. Graves*, 7 Bing. 735, 743, 131 Eng. Rep. 284, 287 (C.P. 1831)).

[55] *See e.g.*, California (since 1872, *see Edwards v. Arthur Andersen LLP*, 44 Cal. 4th 937, 945 (2008)); North Dakota (since 1865—before North Dakota was even a state, *see Werlinger v. Mut. Serv. Cas. Ins. Co.*, 496 N.W.2d 26 (N.D. 1993)); and Oklahoma (since 1890—before Oklahoma was a state, *see* Brandon Kemp, "*Noncompetes in Oklahoma Mergers and Acquisitions*," 88 Okla. B.J. 128, 128 (2017)).

[56] *Oregon Steam Nav. Co. v. Winsor*, 87 U.S. 64, 22 L. Ed. 315 (1873)

[57] Changing Trade Secrets & Non-Compete Laws, FAIR COMPETITION LAW, https://faircompetitionlaw.com/changing-trade-secrets-noncompete-laws/ (last visited Sept. 3, 2024).

[58] Although Mont. Code Ann. § 28-2-703 (enacted in 1895) appears to ban non-compete agreements, Montana courts will enforce them if they are meticulously drafted to meet the state's specific common law requirements.

[59] Cal. Bus. and Prof. Code §§ 16600, 16601, and 16602.5

[60] Colo. Rev. Stat. § 8-12-113 (2022).

[61] D.C. Code §§ 32-581.02 to 32-581.03 (2022); Minn. Stat. § 181.988 (2023); S.B. S3100A (N.Y. 2023); S.B. A1278B (N.Y. 2023).

[62] Wash. Rev. Code Ann. §§ 49.62.005 to 49.62.900.

[63] 69 Non-Compete Bills in 31 States: 0 Passed, 2 on Their Way, 3 Died, and 6 Federal Bills, FAIR COMPETITION LAW (Mar. 10, 2024), https://faircompetitionlaw.com/2024/03/10/69-noncompete-bills-in-31-states-0-passed-2-on-their-way-3-died-and-6-federal-bills/ (last visited Sept. 3, 2024).

[64] Federal legislative efforts to restrict non-compete agreements began in 2015 with three bills: the "Mobility and Opportunity for Vulnerable Employees Act" (MOVE Act), which aimed to prohibit non-competes for low-wage employees; the "Limiting the Ability to Demand Detrimental Employment Restrictions Act" (LADDER Act), which had a similar goal but with a narrower definition of low-wage workers; and the "Freedom for Workers to Seek Opportunity Act" (FWSOA), which specifically sought to ban non-competes for grocery store workers; none of these bills were enacted

[65] The White House, *Non-Compete Agreements: Analysis of the Usage, Potential Issues, and State Responses* 2 (May 2016), https://obamawhitehouse.archives.gov/sites/default/files/non-competes_report_final2.pdf.

[66] Exec. Order No. 14036, 85 Fed. Reg. 36987, 36992 (July 9, 2021).

[67] 69 Non-Compete Bills in 31 States: 0 Passed, 2 on Their Way, 3 Died, and 6 Federal Bills, FAIR COMPETITION LAW (Mar. 10, 2024), https://faircompetitionlaw.com/2024/03/10/69-noncompete-bills-in-31-states-0-passed-2-on-their-way-3-died-and-6-federal-bills/ (last visited Sept. 3, 2024).

[68] The FTC offered examples of clauses that "prohibit", "penalize" or "function to prevent" an employee from accepting work or operating a business. For example, a clause that "prohibits" would explicitly bar a worker from taking a job with a competing company or starting a similar business after leaving their current employer. An example is a contract stipulating that a worker cannot work for another sandwich shop within three miles of their current employer's locations for two years after leaving.

*See* Office of the Att'y Gen. of the State of N.Y., Press Release, A.G. Schneiderman Announces Settlement With Jimmy John's To Stop Including Non-Compete Agreements In Hiring Packets (June 22, 2016), https://ag.ny.gov/press-release/2016/ag-schneiderman-announces-settlement-jimmy-johnsstop-including-non-compete
A clause that "penalizes" would impose financial penalties on a worker for seeking other employment or starting a new business. For instance, an agreement might require a worker to pay $50,000 in liquidated damages if they engage in a competing business within a specific geographic area for two years after employment ends.
A clause that "functions to prevent" is one so broad that it effectively restricts a worker's post-employment opportunities, even if not explicitly stated. This prong of the definition does not outright ban other restrictive employment agreements, such as NDAs, TRAPs, and non-solicitation agreements. These agreements typically do not prevent or penalize workers for seeking or accepting new employment or starting a business after leaving their job, and often do not have that effect. However, if an employer imposes a term that is so broad or burdensome that it effectively prevents or penalizes a worker from pursuing other work or starting a business post-employment, such a term is considered a non-compete clause under the final Rule. For instance, an overly restrictive nondisclosure agreement might be deemed a non-compete if it substantially limits the worker's ability to find new employment or start a business by excessively broadening the scope of confidential information covered.
[69] § 910.1.
[70] § 910.1.
[71] § 910.1.
[72]. § 910.3(a)–(c).
[73] § 910.4
[74] § 910.5
[75] § 910.2(b)(1)
[76] *Beck et al. v. Pickert Medical Group, P.C., et al*., No. CV-21-02092 (2d Jud. Dist. Nev. Feb. 25, 2022)
[77]*See* Eric A. Posner, *The Antitrust Challenge to Covenants Not to Compete in Employment Contracts*, 83 Antitrust L.J. 165, 172 (2020)(citations omitted) ("[Non-competes] can be illegal under Section 1 as an agreement between the employer and employee to restrain trade, or under Section 2 if the employer uses [non-competes] to obtain or maintain a monopoly."). *Id.* at 172 ("A search in the Westlaw database yielded a grand total of zero cases in which an employee [non-compete] was successfully challenged under the antitrust laws." (citation omitted)).
[78] NLRB Office of Public Affairs press release, "*NLRB General Counsel Issues Memo on Non-Competes Violating the National Labor Relations Act*, NAT'L LABOR RELATIONS BOARD" (Sept. 6, 2023), https://www.nlrb.gov/news-outreach/news-story/nlrb-general-counsel-issues-memo-on-non-competes-violating-the-national (last visited Sept. 3, 2024).
[79] *Kalnitz v. Ion Exchange Products*, Inc., 2 Ill. App. 3d 158, 276 N.E.2d 60, 62 (1st Dist. 1971).
Conversely, some courts acknowledge that a former employee working for a direct competitor in the same niche market will likely use knowledge of the former employer's trade secrets and confidential information, making the loss of customer goodwill nearly inevitable, and justifying the enforcement of a non-compete covenant. *Kelly Services v. Eidnes*, 530 F. Supp. 2d 940 (E.D. Mich. 2008).
[80] *Reed, Roberts Associates, Inc. v. Strauman*, 40 N.Y.2d 303, 307 (1976); *Nalco Chemical Co. v. Hydro Technologies, Inc*., 984 F.2d 801, 805, 25 U.S.P.Q.2d 1719, 1993-1 Trade Cas. (CCH) ¶ 70102 (7th Cir. 1993), as amended on denial of reh'g, (Mar. 18, 1993) ("Covenants not to compete are disfavored. … The disapproval afforded broad restraints of business activity is no secret."); *Diaz v. Indian Head, Inc*., 402 F. Supp. 111, 114 (N.D. Ill. 1975), aff'd, 525 F.2d 694 (7th Cir. 1975) ("New York law looks with disfavor upon agreements that prevent a talented person from engaging in his or her chosen profession. In the balance between the public interest in productivity, the employer's legitimate business interest, and the employee's interest, the first weighs more heavily.").
[81] *Comprehensive Technologies Intern., Inc. v. Software Artisans, Inc*., 3 F.3d 730, 738, 28 U.S.P.Q.2d 1031 (4th Cir. 1993), vacated pursuant to settlement, (Sept. 30, 1993) (quoting Blue Ridge Anesthesia and Critical Care, Inc. v. Gidick, 239 Va. 369, 389 S.E.2d 467, 469, 5 I.E.R. Cas. 292 (1990)).
[82] *Nalco Chemical Co. v. Hydro Technologies, Inc*., 984 F.2d 801, 805, 25 U.S.P.Q.2d 1719, 1993-1 Trade Cas. (CCH) ¶ 70102 (7th Cir. 1993), as amended on denial of reh'g, (Mar. 18, 1993).
[83] Data Management, Inc. v. Greene, 757 P.2d 62, 3 I.E.R. Cas. 796 (Alaska 1988) (discussing all three approaches before endorsing approach (3))
[84] *Valley Medical Specialists v. Farber*, 194 Ariz. 363, 982 P.2d 1277, 15 I.E.R. Cas.) 419 (1999) (under Arizona law, courts may

blue-pencil a covenant by eliminating grammatically severable, unreasonable provisions, but they are prohibited from adding or rewriting provisions); *Coates v. Heat Wagons, Inc.,* 942 N.E.2d 905, 2011 I.E.R. Cas. 163558 (Ind. Ct. App. 2011) ("The trial court's decision to strike those states with which Coates had no contact did not require reinterpretation of the contract....");*AMCOM of Louisiana, Inc. v. Battso*n, 670 So. 2d 1223 (La. 1996) (a non-compete agreement that had language describing as its geographic scope, "Shreveport or Bossier City, Louisiana, or in Caddo or Bossier Parishes, Louisiana, or within a seventy-five (75) mile radius of Shreveport or Bossier City, Louisiana," was reformed by striking the 75-mile radius provision, leaving only the specified cities and parishes)

[85] *In re Monaghan,* 141 B.R. 80, 7 I.E.R. Cas. 895 (Bankr. E.D. Pa. 1992) (applying Pennsylvania law) (although overbroad covenant will be reformed in certain situations, it will be not when gratuitous overbreadth in covenant indicates intent to oppress employee); *Superior Gearbox Co. v. Edwards*, 869 S.W.2d 239 (Mo. Ct. App. S.D. 1993) (court will modify unreasonably broad restrictions); *CAE Vanguard, Inc. v. Newman*, 246 Neb. 334, 518 N.W.2d 652, 9 I.E.R. Cas. (1307 (1994) (covenant not to compete not subject to reformation by court); *Rogers v. Runfola & Associates, Inc*., 57 Ohio St. 3d 5, 565 N.E.2d 540, 6 I.E.R. Cas. 160 (1991) (contract provisions altered with respect to geographic area and length of time)

[86] *See Unlimited Opportunity, Inc. v. Waddah*, 861 N.W.2d 437, 441 (Neb. 2015);
Golden Rd. Motor Inn, Inc. v. Islam, 376 P.3d 151, 153 (Nev. 2016).

[87] *Golden Road Motor Inn, Inc. v. Islam*, 132 Nev. 476, 488, 376 P.3d 151, 159 (2016). The Nevada legislature was not in accord and the following year enacted NRS 613.195(5), which requires district courts to blue-pencil unreasonable noncompetition agreements and enforce the revised agreement. That statute was one of the issues that the Supreme Court addressed in a *Tough Turtle Turf, LLC v. Scott,* 139 Nev. Adv. Op. 47 (Nov. 2, 2023). In *Tough Turtle*, the Nevada Supreme Court read these seemingly contradictory provisions together to hold that, while a district court is not *always* required to modify an overbroad non-compete agreement, it must do so "when possible".

[88] 368 N.C. 693, 784 S.E.2d 457 (2016).

[89] 2022 WY 28, 505 P.3d 169 (Wyo. 2022)

[90] 2023 WL 106924 (Del. Ch. Jan. 4, 2023),

[91] No. 2022-0853-LWW, 2023 WL 2544236 (Del. Ch. Mar. 16, 2023).

[92] *See BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 690 N.Y.S.2d 854, 712 N.E.2d 1220 (1999); American Institute of Chemical Engineers v. Reber-Friel Co., 682 F.2d 382 (2d Cir. 1982) (restrictive non-compete covenant not justified for manager of trade shows); *EarthWeb, Inc. v. Schlack,* 71 F.Supp. 2d 299 (S.D.N.Y. 1999), remanded, 2000 WL 232057 (2d Cir. Jan. 31, 2000), affirmed an appeal after remand, 2000 WL 1093320 (2d Cir. May 18, 2000) (non-competition agreement with an employee who managed the content of the employer's web sites not reasonably necessary to fairly protect the interests of the employer); Century 21 *Access America v. Garcia*, 2004 Conn.Super. LEXIS 2171 (Aug. 5, 2004) (unreported dec.) (non-compete unenforceable against new real estate salesperson who merely received some training that did not involve trade secrets).

[93]The FTC views a garden-variety NDA as acceptable if it prevents the disclosure of specific confidential information but does not restrict the worker from seeking or accepting employment with a competitor. Such an NDA is not considered a non-compete under §910.1 if it does not cover information that (1) stems from the worker's general skills, knowledge, or experience, or (2) is publicly available.

However, an NDA may qualify as a non-compete under the "functions to prevent" prong if it is overly broad and effectively bars workers from pursuing other employment or starting a business after leaving their job. Examples include NDAs that broadly restrict industry-related information or any knowledge gained during employment, even if publicly accessible.

[94] Under the FTC's final Rule, non-solicitation agreements are usually not considered non-compete clauses, as they generally limit only contact with former clients without preventing new employment or business ventures. However, if they significantly restrict a worker's ability to pursue new opportunities, they may be deemed non-competes under §910.1. Each agreement requires a specific analysis, and all such restrictive agreements must comply with Section 5 of the FTC Act's prohibition on unfair competition practices.

[95] National Labor Relations Board, *Board Rules that Employers May Not Offer Severance Agreements Requiring Employees to Broadly Waive Labor Law Rights*, NLRB News, https://www.nlrb.gov/news-outreach/news-story/board-rules-that-employers-may-not-offer-severance-agreements-requiring (last visited Sept. 3, 2024).

[96] Although the FTC has not explicitly banned TRAPs, it could classify them as non-competes if the repayment terms are disproportionate to actual training costs. For example, TRAPs imposing hefty penalties on low-wage workers or requiring substantial repayment if employees leave could be deemed non-competes if they effectively prevent workers from finding new

jobs. Moreover, advocacy groups also claim TRAPs may breach the Fair Labor Standards Act (FLSA) if they diminish actual wages.

[97] The FTC states that garden leave agreements, where employees receive full compensation and benefits while not working, are not considered non-compete clauses under § 910.1. These agreements do not impose post-employment restrictions but maintain the employee's status with reduced duties. Similarly, severance agreements that don't restrict future employment are not deemed non-compete clauses under § 910.1.

[98] *See Wimbrey v. WorldVentures Marketing, LLC*, 2020 WL 7396007, *6 (Tex Civ. Ct Appeals, 2020) (vacating temporary injunction because order (which relied upon agreements) did not adequately define "confidential information" which was the subject of injunction).

[99] *See Dur-A-Flex, supra,* *24 (trial court drew inference that defendant stole trade secrets from his erasing information on computer and perjured deposition testimony).