

5 TIPS FOR PROTECTING YOUR TRADE SECRETS WITHOUT AN ENFORCEABLE NONCOMPETE AGREEMENT

Insights
Jun 1, 2022

2022 hasn't been the friendliest year for employers that seek to protect trade secrets with a noncompete agreement. Although many jurisdictions understand the importance of contractually protecting a company's legitimate trade secrets when an employee leaves the business, employers have seen some trends against such protection over the last two years. But don't despair. Even if you have employees in locations that prohibit or limit noncompete agreements, you can develop strategies to help protect your confidential information when an employee departs and seeks to compete. Here are five key ideas for your consideration. Even if these ideas don't guarantee you a win, they may give your company the hook you need to negotiate with the former employee – and perhaps the new employer – to secure certain important protections.

1. Check for Laws that May Help

First, you should note a few more recent challenges for employers. In July 2021, President Biden issued an [Executive Order on Promoting Competition in the American Economy](#). Among other things, the order encourages the Federal Trade Commission to ban – or at least limit – noncompete agreements. Additionally, more states are introducing and even enacting legislation to ban or severely restrict the enforceability of noncompete agreements. By way of example, [Washington D.C.](#), [Oregon](#), and [Illinois](#) passed such legislation in 2021. Looking at 2022, [Colorado](#)'s governor is expected to sign a bill that will severely limit noncompetes, and the [New](#)

Related People



Barbara Jean D'Aquila

Partner

612.216.2743

Service Focus

Counseling and Advice

Employee Defection and Trade Secrets

Jersey legislature is also considering similar legislation. Even Congress has considered limiting the use of a noncompete agreement to only circumstances involving the sale of a business or dissolution of a partnership. As if that weren't enough, some courts seem to be scrutinizing noncompete agreements more stringently in the COVID-19 environment. The current labor shortage and "great resignation" have compounded the impact of these anti-enforcement trends, so there is an understandable uptick in concerns about protecting your company's trade secrets.

Notably, however, some jurisdictions have helpful statutes or common laws that may protect your trade secrets. At the federal level, the Defend Trade Secrets Act (DTSA) is designed to protect businesses from misappropriation or theft of trade secrets when the goods or services are used or intended to be used in interstate or foreign commerce. Additionally, some states provide statutory protections for a company's trade secrets. Thus, the DTSA and the state statutes may provide your company with a degree of protection – even if your company doesn't use noncompete agreements – provided you can establish that the statute applies and show a viable claim that the statute was violated. You may not be able to prevent the former employee from working for a competitor, but you may be able to stop that employee from using your company's trade secrets in the process.

In addition to helpful statutes, many states have long-standing case law holding that an employee owes the employer a duty of loyalty or good faith and fair dealing. Unless a contractual provision says otherwise, employees can generally take steps to compete with your business while still working for you, so long as they don't go too far. For example, an employee may run afoul of applicable common-law employment obligations by using your company's computer, work time, and other assets to launch a competing business. Although the employee's duty to the employer is not particularly restrictive, helpful case-law principles may enable your company to assert a claim alleging a breach of the duty of loyalty or good faith and fair dealing. Depending on how egregious the employee's conduct was during this time, you may have success in preventing the employee from reaping the fruits of the misconduct and in securing monetary

damages from the former employee and possibly the new employer. At the very least, it may be worth investigating your employee's common law duties to see if your company has any leverage.

Another example where the company may have protection in a particular jurisdiction involves "business opportunities." If the business opportunity comes to the employee in the course of working for your company – and the employee takes that business opportunity for the employee's own benefit or the benefit of a new employer – some jurisdictions consider that business opportunity to belong to your company and they generally prohibit the employee from quitting and taking that business to a new setting.

Additionally, although not the most accepted theory in a great number of states, you may have an "inevitable disclosure" argument under the applicable jurisdiction's laws, which could provide a basis for stopping the departing employee from competing with you if you can demonstrate that the employee's new job duties will inevitably result in use of your company's trade secrets.

Finally, and importantly, don't forget your company's intellectual property rights provided by patent, trademark, and copyright laws. These laws are another potential source of protection for your company.

2. Take Proactive Steps at the End of the Employment Relationship

Make exit interviews count. The exit interview is important, even if it's uncomfortable to conduct. It is a time to make sure the employee is not leaving with any of the company's confidential information in hard copy or electronically. During the exit interview, remind the departing employee of ongoing obligations to your company and then follow up in writing. Make sure the departing employee understands your company's rights regarding intellectual property and confidentiality. As noted above, knowing the protections under applicable statutes and common law will be important to this effort. In some situations, you may consider a cease-and-desist letter and possibly notify the new employer of the departing employee's obligations to your company. But you should seek competent legal advice before taking the step to notify the new employer in order to avoid a

potential tortious interference with employment claim from the departing employee. If you undertake one or more of these steps, prompt communication is important, because time is of the essence.

3. Use 'Pay-Not-to-Play' or Garden Leave Clauses

Although your company will likely not seek to do this with the majority of employees, if there is a key employee (such as, a television celebrity who is not easily replaceable), you may ask the person to sign an agreement not to work for a competitor for a period of time (such as one year after leaving your employment) in exchange for your company's payment of a specific amount of money. This strategy to offer so-called "garden leave" is often used in the U.K. and refers to the idea of providing time for the departing employee to tend to a garden. Regardless of what it is called or how you package it (provided it is a fair and negotiated provision), courts are more likely to enforce these clauses, because the employee is being compensated for sitting on the sidelines. But again, whether your company can use this strategy will depend on the law in the applicable jurisdiction. And, be forewarned, you will want to make sure such a provision doesn't run afoul of anti-trust or "no poaching" laws. Recent Department of Justice activity in the anti-trust area should be on your company's radar screen in connection with the efforts you take to protect your business.

4. Introduce Your Top Customers to Key Executives

Don't forget the basics. Involve key executives (who are loyal to your company) in handling your large accounts. Unless your product is markedly better than your competitor's product, your main competitive risk comes from a former employee who has established a relationship of trust and maybe even friendship with the customer (such as the doctor buying your medical device). That bond could be a stronger purchasing factor than the quality of your product. This risk can be tempered if you have a key, loyal executive who accompanies the sale representative periodically and works hard to establish an independent rapport with the customer.

When the employee departs, you should reach out quickly to that important customer, advise of the

employee departure, and provide your solution for achieving a seamless transition. Indeed, the key executive who has occasionally called on the customer can swing into action to keep the relationship going until a suitable replacement is hired. All too often, companies forget the importance of not only fighting the impact of an employee's departure in a legal setting, but also fighting the old-fashioned way to cultivate the business relationship itself. Customers want to be appreciated.

5. Negotiate, Mediate, and Consider Arbitration

When an employee departs, consider whether your company wants to negotiate. For example, can your company reach an agreement with the employee to sit on the sidelines for a reasonable period of time in exchange for pay, tuition reimbursement, or something else of value? Don't presume you know the answer. This strategy may not be fruitful, but nothing ventured, nothing gained. Moreover, if you do have a noncompete with the employee, but there is a dispute about the enforceability, you can try to negotiate or mediate the dispute quickly or get an agreement to arbitrate if you think that will resolve the matter more efficiently and effectively. Those options may be a better recourse for securing the protection you seek, rather than resorting to protracted litigation. Besides, many courts expect your company to attempt to achieve a resolution before you seek a court order, such as a temporary restraining order or other injunctive relief.

Conclusion

Protecting your company's trade secrets is becoming more difficult in today's environment. We will continue to monitor the latest developments related to confidential business information and noncompete agreements, so you should ensure you are subscribed to [Fisher Phillips' Insight system](#) to gather the most up-to-date information. If you have questions, please contact the author of this Insight, your Fisher Phillips attorney, or any attorney in our [Employee Defection and Trade Secrets Practice Group](#).