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# Protecting Innovation and Trade Secrets with Non-Compete Agreements

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While non-competition agreements ("non-competes") were once largely aimed at top executives, they are now reaching wider and deeper into organizations to include sales representatives, engineers and people involved in research and innovation. Are non-compete or other types of restrictive covenants right for your organization's workforce? The answer will largely depend on the state in which your employees work, the business reasons for restraining employees' post-employment activities, and the scope of the restraint. To the extent that non-competes are appropriate for some or all of your employees, the contents of the non-competes will have significant impact on their effectiveness.

## Types of Post-Employment Restrictions

Non-compete agreements are not a company's only option for protecting its confidential information and achieving other business objectives. The goal is to balance a company's needs with the risk of unnecessary legal disputes.

- **Non-competition agreements** limit an employee's ability to work for a competitor within a specific geographic region for a specific duration of time. They will generally only be enforceable to the extent that they reasonably protect legitimate business concerns.
- **Agreements not to solicit customers** can be as effective as non-compete agreements for many businesses. They are generally analyzed using the same "reasonableness" framework as non-competes.
- **Agreements not to hire or recruit employees** are typically subject to less exacting standards than non-competes.
- **Confidentiality agreements** identify the scope of protected information and are highly recommended for almost all businesses where employees are given access to confidential information.
- **Assignment of invention agreements** formalize the company's ownership of any work-related inventions and are particularly important in the research context, where employees are involved in the development of the company's intellectual property.

In the absence of any agreement at all, employers may be protected by general trade secret law, such as the Uniform Trade Secrets Act (UTSA), which has been adopted in many states. To be a trade secret under the UTSA, however, the information must be the subject of "reasonable efforts to maintain its secrecy," which often is interpreted to require a confidentiality agreement.

## State Regulation of Non-Competes

The majority of states enforce employee non-competition agreements to the extent they are reasonably necessary to protect legitimate business interests. However, several states have enacted or are considering laws that limit non-compete agreements. For example, California voids non-compete agreements arising in the context of an employment relationship. New Hampshire voids non-compete agreements that are not provided before or when a job offer is made, or when an employee changes jobs. Massachusetts is planning to hold hearings on

a bill that would limit non-compete agreements to six months. New Jersey and Minnesota have introduced legislation that would limit or void non-compete agreements. (In all states, including California, which otherwise voids non-compete agreements, a non-compete in the context of a sale of a business is allowed and generally subject to fewer restrictions.)

In states that enforce non-competes, the key distinction is often between "ordinary" and "unfair" competition. Even if the agreement is otherwise valid, courts are reluctant to impede ordinary competition in the marketplace, and, in particular, when doing so would limit individuals' ability to gain employment or earn a livelihood. However, courts will generally be more receptive to restriction of competition that involves employee disclosure or use of proprietary, confidential or trade secret information; employee raiding; and other unfair practices. For example, in Kallok v. Medtronic, Inc., Case No. 9519248 (1997), the Minnesota Court of Appeals enforced a non-compete agreement against a former research scientist and senior manager for Medtronic when he accepted a Vice President of Research position with a direct competitor, finding that Mr. Kallok would necessarily rely on Medtronic's confidential information when performing his new position.

In the clinical research context, unless the employee has special knowledge of customer or technical business information, enforcement may be an uphill battle. In Lombard Medical Technologies, Inc. v. Johannessen, No. 10cv10995 (2010), the U.S. District Court for Massachusetts enjoined two "investigational site specialists" from accepting employment with a competing medical device company conducting clinical trials that "overlapped" with those of Lombard, their former employer. The investigational site specialists were charged with identifying medical centers to participate in clinical trials, persuading these medical centers to refer patients to the clinical trials, meeting with doctors to discuss Lombard's endovascular stent graft (Aorfix), evaluating the device's strengths and weaknesses, and also participating in weekly conferences with business, regulatory and clinical personnel. The court enforced a non-compete restriction of six months to protect Lombard's legitimate business interests in its trade secrets, confidential information, and good will:

> During their employment with Lombard, Johannessen and Sassler were party to trade secrets and confidential information about Aorfix's workings, Lombard's clinical trial methodologies, and Lombard's contacts at various medical centers. While [some] information about Aorfix and its clinical trials are publicly available, other information, including Aorfix's strengths and weaknesses and clinical trial analyses, are confidential.

Some evidence that the departing employee has or necessarily will utilize a company's trade secret, confidential or proprietary information is generally required to enforce a non-compete agreement.

**Protecting Confidential Information is a Legitimate Business Interest**

Courts and legislatures seek to balance the employer's legitimate need to protect confidential business information with the employee's legitimate need to earn a living. Therefore, the restrictions on the employee should not be any greater than necessary to uphold an employer's legitimate business interest in protecting its confidential information. Courts vary on how they strike this balance, depending on state law and the specific facts of each case, but the following guidelines are generally applicable:

**Reasonableness of duration**

In determining the appropriate duration for a non-compete, consider how long you really need to maintain the confidentiality of the business information you seek to protect, keeping

in mind that a court is more likely to unfavorably shorten the duration of a non-compete that it considers unreasonable.

There is generally no bright-line rule for the reasonableness of duration, although some states have clarified this issue. In Florida, for example, a restraint of six or fewer months is presumptively reasonable, whereas one that exceeds two years is presumptively unreasonable. In most states, if the duration exceeds two years, courts will critically question the reasonableness of duration.

#### Reasonableness of geographic scope

The appropriate geographic scope is determined by the employer's activities. If an employer only does business in one city, then a restriction that prohibits an employee from working anywhere in the entire state will generally be deemed unreasonable. Similarly, if an employer only does business in one state, a restriction that prohibits an employee from working in another state will be deemed unreasonable.

For certain types of businesses that are not geographically confined, a nationwide or unlimited geographic scope could be deemed reasonable, especially when paired with a reasonable duration. To the extent that a business is not geographically confined, then companies are best served by limiting employees' activities based on non-geographic limitations, for example, listing prohibited competitors or types of research subject to the restriction.

#### Examples

For example, if a study coordinator leaves Research Site A to join Research Site B down the street, working in the same therapeutic area, Research Site A would be rightfully concerned that Research Site B could use the research coordinator's knowledge of study sponsor activities to compete with it, since study sponsors generally do not contract with neighboring research sites for a given study. However, a court would be reluctant to enforce a non-compete that forces the study coordinator to move to a different city or state or leave the clinical research industry entirely to gain employment. In addition, study sponsor activities could be learned independently, with some effort, and might already be known, to a large extent, by Research Site B. On the other hand, the study coordinator's knowledge of Research Site A's strengths, weaknesses and business practices, could be very useful to Research Site B in competing for business. Given these circumstances, different courts could reach different conclusions about the enforceability of a non-compete but would certainly look more favorably on one that is relatively limited in duration and geographic scope.

In a related scenario, if both study coordinators at Research Site A quit to start a new research site, Research Site C, in partnership with a physician group down the street, the court is more likely to enforce a non-compete, e.g., by prohibiting Research Site C from competing with Research Site A in the same therapeutic area for a period of six months, which would give Research Site A time to find replacement study coordinators. Other factors, e.g., compensation levels at Research Site A and the competitive practices of Research Site C, could also affect the court's ruling.

### Enforceability

#### Adequate compensation

To be enforceable, a non-compete must meet the requirements of both contract law and state law specific to non-competes. Among the contract law considerations is whether a non-compete is supported by adequate consideration, or in other words, whether the

 

employer provided the employee something of value in return for the promise not to compete. Initial employment is generally deemed sufficient consideration. However, if the offer of employment has already been accepted without mention of a non-compete or employment has already begun, continued employment alone is insufficient to support a non-compete in many states. In those states, employers must give an additional benefit, for example, a discretionary bonus or promotion, to support a non-compete agreement.

### Other considerations

Many other considerations are important in non-compete agreements, such as the existence and type of consideration to include, the types of remedies, whether to require a departing employee to disclose the identity of his or her new employer, whether to include an arbitration clause, and whether the agreement should allow courts to strike out and/or rewrite provisions deemed unenforceable ("blue pencil" clause).

Especially when employees work remotely, employers should consider the state laws applicable to their workforce and consider including choice of law and venue clauses to ensure that there is no ambiguity as to which state law governs or the venue of any lawsuit.

Knowledge that an employee brings to an employer is exempt from non-compete and confidentiality agreements.

## The Employee's Perspective

The employer and employee might have very different perspectives on the employee's post-employment rights to compete with the employer and what constitutes fair competition. In particular, an employee who has helped build the employer's business is likely to believe that he or she has some interest in the business. From the employee's perspective, even if that interest does not extend to ownership in a financial sense, it might very well include the right to use the company's confidential information for purposes that the employee considers legitimate, including entering into competition with the employer. It is thus important to ensure that employees understand the restrictions.

## Litigation

If worse comes to worst, non-compete litigation can be expensive, time-consuming and futile, so even winning the case might not be worth the effort. Unlike other types of litigation, non-compete litigation often must be pursued immediately upon receiving information of competitive activity, when the business has other priorities, e.g., replacing the departed employee(s). Similarly, for the ex-employee — and his or her new employer — litigation can be a serious impediment with awkward timing, so respecting the former employer's legitimate non-compete concerns is well-advised. Non-compete litigation often generates lose-lose results, regardless of who "wins" in court.

## Recommendations

Non-competes are just one tool to protect a company's innovations, trade secrets, and other confidential information that contribute to the intangible value, i.e., goodwill of a company. Confidentiality agreements can benefit most companies. Assignment of invention agreements are necessary for employees who are directly involved in developing a company's intellectual property. Agreements restricting non-solicitation of customers are important for employees who have access to customer contacts.

 

Non-competes and other restrictive covenants can help protect confidential information and goodwill. Given the number of company-specific considerations and legal complexities, an attorney should review non-competes. Using an online form is almost never advisable.

The best way to protect a company's confidential information and goodwill is, of course, to retain employees by providing an attractive place to work. But, when employees do leave, there should be a process for handling their departure that minimizes the chance of wrongful use and disclosure of confidential information.

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