



Buchanan

Strategies for Protecting Trade Secrets through Employment Practices: Drafting, Compliance, and Litigation Management

May 28, 2025





Agenda

- **Drafting and Compliance**
- **Transitioning**
- **Litigation**



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Drafting and Compliance

Protecting Business Interests Through Contracts and Policies

- Companies, regardless of industry, have proprietary information and methods that are critical to success.
- In some industries cornerstone of their success resides in customer lists (including specific information regarding customers, i.e. buying habits), customer good will, unique processes, specially skilled or trained employees, research & development, and/or technologies.
- Employees are often provided with the unique competitive assets of their Employer.
- These assets must be protected during *and after* employment.

**Companies Protect Competitive Business Assets By
Imposing Restrictions on Employees**

The Employer's Perspective

- Protect proprietary information.
- Protect the company's investments and product development.
- Protect the time, money, and energy invested in the recruitment and development of key employees who develop specialized knowledge and expertise.
- Protect against the loss of critical information, technology, and products developed over time.
- Protect customer and other relationships established through employees.



Protection of Business Assets Must Be **Compliant** with Federal and State Law

- Protection of business assets is balanced against the rights of employees.
- State and federal laws govern the type, breadth, and scope of certain types of agreements with employees – or prohibit certain types completely.
- Federal laws prohibit or restrict most agreements between employers that restrict the movement of employees.
- *But*, employees can be fully restricted from taking confidential information or trade secrets.

Employees Must Be Allowed to Move Jobs without Undue Hardship

The Employee's Perspective

- Restriction on freedom to move between jobs, particularly when they have been a long-term member in the industry.
- Restriction on freedom to market their skillset and experience.
- Restriction on freedom to find a better job – e.g., higher wage, better benefits.
- Restriction on freedom to negotiate a higher wage.
- Restriction on freedom to seek improved quality of employment, including access to better innovations.
- Debate on their knowledge vs. employer know how.
- Debate on who “owns” the client relationship.



Contracts Used with Employees to Protect Competitive Assets

Non-Compete Agreements

- Prohibits an employee from competing with former employer within a geographic area and/or for a certain time period

Non-Solicit Agreements

- Prohibits an employee from soliciting clients or customers of former employer

Non-Acceptance Agreements

- Prohibits an employee from accepting work (e.g., orders, requests for service) from clients or customers of former employer

Confidentiality Agreements

- Prohibits an employee from using former employer's confidential information other than for the benefit of the former employer

Employee/Vendor Non-Solicit Agreements (special case)

- Prohibits an employee or vendor from approaching current employees to hire them away

Contract: Non-Compete Agreement

- Prohibits an employee from competing with former employer
 - within a geographic area;
 - for a certain time period, and/or
 - for a certain type of product, service or customer
- Historically, non-compete provisions had significant value to employers of all sizes who are providing:
 - confidential information,
 - trade secrets,
 - customer relationships and goodwill, and
 - specialized training.

Compliance: Non-Compete Agreement

- Two significant challenges to the use of non-competes:
 - State law variations, for example
 - Washington state with its requirements on salary
 - Washington D.C., CA, and OK with its prohibitions
 - Pennsylvania limited to healthcare
 - Maryland and Virginia have salary minimums before can use a non-compete
 - State and Federal Government opposition to their use
 - State Attorneys General using antitrust laws to challenge broad agreements
 - FTC rule banning non-compete agreements – technically lawsuits are still open, but new administration not likely to pursue broad ban
 - However, FTC has formed a Labor Taskforce and still planning to target overbroad use on a case by case basis
 - NLRB memo citing issues with broad use of non-competes

Compliance: Non-Compete Agreement – State Laws

- **Near-total bans:** Arizona (introduced), California, Oklahoma, Minnesota, North Dakota, Michigan (introduced), Washington (introduced), Tennessee (introduced), Wyoming
- **Salary-based bans:** Colorado,, Illinois, Kentucky (introduced) Maine, Maryland, Nevada, New Hampshire, New York (introduced), North Carolina (introduced), Oregon, Rhode Island, Vermont (introduced), Virginia, Washington, Washington D.C.
- **Profession-based bans:** Arizona, Colorado, Connecticut. Delaware, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York (introduced), Pennsylvania, Rhode Island, South Dakota, Tennessee, Washington

Compliance: Non-Compete Agreement – Opposition

- Status of FTC's ban on non-compete agreements
 - *Ryan LLC v. FTC* – stayed in 5th Circuit until early July, Rule not in effect
 - *Properties of the Villages v. FTC* – stayed in 11th Circuit until mid July, Rule not in effect
 - *ATS Tree Services v. FTC* – ATS voluntarily dismissed the case; District Court had denied the preliminary injunction
- *But*, agencies and states do not NEED the rule to challenge overbroad non-compete agreements
 - FTC brought complaints against three separate companies in 2023
 - Flurry of state cases in 2017-2020
- NLRB has said “Non-compete provisions reasonably tend to chill employees in the exercise of Section 7 rights when the provisions could reasonably be construed by employees to deny them the ability to quit or change jobs by cutting off their access to other employment opportunities that they are qualified for based on their experience, aptitudes, and preferences as to type and location of work.”

Contract: Non-Solicit Agreement

- Prohibits an employee from soliciting clients or customers of former employer
 - within a geographic area;
 - for a certain time period, and/or
 - for a certain type of product, service or customer
- Generally has value especially to employers whose business depends on customer relationships to prevent the affirmative use of company confidential information but can be less broad
 - Requires that former employee affirmatively tried to get customer to switch business
 - May not be as useful for employees who are not customer-facing
 - Allows former employee to work for a competitor

Compliance: Non-Solicit Agreement

- Minor State law variations but generally non-solicits are permitted in every state
- Proposed FTC Non-Compete Rule permitted non-solicit provisions *so long as* they do not function as a non-compete
 - FTC would likely continue to use this standard in individual cases

Contract: Non-Acceptance Agreement

- Prohibits an employee from accepting work (e.g., orders, requests for service) from clients or customers of former employer
 - within a geographic area;
 - for a certain time period, and/or
 - for a certain type of product, service or customer
- Generally has value especially to employers whose business depends on customer relationships to prevent the use of company confidential information
 - Does not requires that former employee affirmatively tried to get customer to switch business, would apply even if customer approached former employee
 - May not be as useful for employees who are not customer-facing
 - Allows former employee to work for a competitor
 - Restricts customer choice

Compliance: Non-Acceptance Agreement

- State law does not typically address these – not as common
- Not permitted in all industries (e.g., financial services)
- Proposed FTC Non-Compete Rule was silent as to non-acceptance provisions but likely would have been permitted *so long as* they do not function as a non-compete
 - *But*, antitrust laws generally discourage restrictions on customer choice (Sherman Act § 1, FTC Act § 5)
 - A non-acceptance agreement carries some risk from an antitrust perspective because of this; that risk should be balanced against the company's goals and other avenues available to the company

Contract: Confidentiality Agreement

- Prohibits an employee from using former employer's confidential information other than for the benefit of the former employer regardless of geographic area, time period, or product/service/customer
- Has value to all employers
 - Protect confidential, propriety information AND trade secrets
 - Can apply to any/all employees
- Consider whether to have a standalone confidentiality agreement or include in employee agreement
 - Does employee agreement have terms that shouldn't be disclosed to competitor?

Compliance: Confidentiality Agreement

- State law allows confidentiality agreements
- Proposed FTC Non-Compete Rule permitted confidentiality agreements *so long as* they do not function as a non-compete
 - FTC would likely continue to take this approach
 - FTC has never found a confidentiality agreement too broad
- Easy to comply with state and federal laws
- Consider including assignment of IP Rights (e.g., company has ownership of IP developed by individual while employed)
- Make sure to address Defend Trade Secrets Act carve outs (i.e., whistleblower protection)

Contract: Employee/Vendor Non-Solicit Agreement

- Prohibits an employee or vendor from approaching current employees to hire them away
- Has value to all employers
 - Protect current employees from solicitation from former employees
 - Protect current employees from solicitation from vendors or customers
 - If current employees stay, less chance of confidential information/trade secrets leaving

Compliance: Employee/Vendor Non-Solicit Agreement

- **Use caution!**

- Agreements with vendors or customers not to hire each other's employees no longer automatically accepted – facing increasing scrutiny
- Recent final order with FTC for use of no hires
 - Under the no-hire agreements, residential and commercial building owners who contracted with service companies were limited from hiring the building service workers that were employed by the service company.
 - FTC filed complaint alleging these violated Section 5 of the FTC Act; Companies and FTC reached settlement
- DOJ cases
 - Secured guilty plea in Nevada case charging a company and regional manager for role in agreeing with a competitor not to hire each other's employees
 - Years long investigation into “non-solicitation of employees” agreement between company and vendor leading to a criminal charge – ultimately acquitted; follow on civil class action
- No Hire provisions in employee agreements more acceptable but must apply to the employee individually, not to employee's new company – e.g., the former employee cannot solicit or participate in hiring process from former employer, but employee's new company is free to solicit and hire
- **Definitely cannot have an agreement directly with another employer not to hire each other's employees**

Additional Tools to Protect Competitive Assets

Acceptable Use Policies/Data Encryption and Security Measures

- Establishes rules for how employees can use the company's computer system and access its network.
- Ensures sensitive data is encrypted both in transit and at rest.
- Covers the kind of data employees can use after being granted network access - Can include more than only trade secrets
- Protects confidential and proprietary information, in addition to trade secrets, by educating employees and defining sanctions for violations
- Implementing robust cybersecurity measures can help protect against unauthorized access and data breaches
- Can limit company liability in cases of non-acceptable use by an employee that leads to a lawsuit against the company
- Useful evidence in cases that include misappropriation of trade secrets

Additional Tools to Protect Competitive Assets

Complements to Policies

- Protects confidential and proprietary information by physically limiting an employee's access to certain network areas and/or software
- Provides ability to more easily determine unauthorized use
- Evidence that company sought to protect trade secrets
- Use/Login/Access Restrictions
 - Acknowledgment pop ups upon log in regarding confidential information
 - Restrict access to sensitive areas of network
- Email backup (in line with document retention policies)
- Provisions in employee agreements to require employee to provide the restrictive covenant sections to new employer

Additional Tools to Protect Competitive Assets

Complements to Policies

- Regular Training and Awareness programs – on policies and trade secrets
 - Reinforce the importance of data privacy and the specific measures in place to protect confidential information, includes updates on legal requirements and best practices
- Incident Response Plan
 - Establish a clear incident response plan that outlines steps to take in the event of a suspected data breach or misuse of confidential information, including immediate actions, investigation procedures, and communication strategies
- Ensure policies, like employment contracts, are updated as laws change or as lessons are learned

Additional Tools to Protect Competitive Assets

Trade Secrets Enforcement

- Trade secrets include information (technical, financial, other) that both:
 - Derives economic value because it is not generally known or readily ascertainable by proper means; and
 - Is the subject of reasonable efforts to maintain secrecy
- Policies should broadly capture trade secrets, e.g., product manufacturing process, recipes/formulas, inventions, customer lists, financial information, internal proprietary processes
- Thoroughly educate employees on the types of trade secrets the company protects
- Use confidentiality agreements, acceptable use policies and access restrictions to reinforce protection of trade secrets
- Build in periodic reminders for employees

Practical Takeaways – No One Size Approach

- 1) What is the purpose of the contract? (Can't just be to restrict)
- 2) What is the business justification for including any restrictive covenants, including non-compete, no-hire and non-solicit? (Can't just be to restrict employee movement or protect profits)
- 3) Is the language drafted in the most narrow way to protect the business interest? (Review the geography, duration, connection to the business interest, and is a non-solicit better than a no-hire, including with exceptions for responding to ads)
- 4) How transparent are the restrictions and do the third parties know about them (i.e. are the employees aware, how will the restrictions impact customers)?
- 5) Is it enforceable? Will you seek to enforce it or is it just to deter competition?
- 6) Is your policy clear? Do your employees understand what the trade secrets are and what the consequences are?
- 7) How often are you reminding employees of employment agreements? Consider periodic reminders and trainings.

Contract and Policy Cheat Sheet

- Limit non-competes to specific positions with business justifications
- Limit Scope
 - Length
 - Distance
 - Definition of competitor
- Transparency with employee
- Get creative (are liquidated damages more appropriate? Are you maximizing the use of policies and trainings?)
- Check State Law – scope, salary, profession
 - Includes updates on data privacy and other laws that may affect policies
- Use least restrictive clause possible
 - Non-solicit versus non-compete
 - Confidentiality/Non-Disclosure Agreements
- Confirm agreement is current – for position, compensation, scope, state law
- Financial Consideration
 - This demonstrates an agreement with the employee instead of a unilaterally imposed restriction



Transitioning Employees

When an Employee Joins . . .

- Ask for and review any prior employment agreement – evaluate in what capacity new employee can work
- Document with employee that the company does not want any confidential or proprietary information or trade secrets from prior employer and employee should not use any information from former employer
- Consider whether indemnification by employee is appropriate
- If applicable, facilitate return of prior employer information
- Educate new employee on company policies for confidentiality, acceptable use, and access – be clear about what the company's trade secrets are
- Ensure understanding of employment agreement if applicable
- **Consider developing and implementing an overall protocol for new hires**

When an Employee Joins – The Circumstances Matter!

- Consideration
 - New employment
- State-specific disclosures, acknowledgments and timing
- Acquisition-based employment
 - Is the prior covenant enforceable post-transaction
 - Is it desirable to retain the prior contract/covenant post-transaction
 - What consideration is required for a new contract/covenants
- Change of Employment Circumstances
 - Promotions, “fresh consideration,” continued employment

When an Employee Leaves . . .

- **Exit Interviews are Key!**
- Review employment agreement and any post-employment restrictions
- Remind employee of trade secrets
 - Send letter documenting post-employment obligations and trade secret reminders and include copy of any relevant agreements
 - Request personal email to send letter and agreements
- Terminate access to company systems as soon as possible
 - Ask about use of personal emails and devices
- If suspicion of misappropriation, check activity immediately
- Have employee certify they are not taking any trade secrets, will not use trade secret knowledge, and have returned/destroyed company devices, material and/or information



Litigation

Enforcement

- What is the litigation goal?
 - Identify the harm beyond the breach.
 - Is harm *imminent* or is there a risk of *ongoing/additional* harm?
 - Is the harm *monetary* in nature?
 - Can the harm be *stopped or mitigated* by action of a Court?
 - Identify the best outcome.
 - We would be made whole by payment of money.
 - We need to stop the bad acts from continuing.

** NOT a zero-sum game**

Enforcement (Cont'd)

- Cost/Benefit Analysis

- Business Considerations

- Inside audience – What are the pros and cons of enforcement *internally* with respect to other employees?
 - Industry audience – How will our action/inaction be perceived in our industry?
 - Client audience – How will our action/inaction be judged by clients/prospects?
 - Merger/Acquisition audience – (If applicable) how will our action/inaction impact a potential transaction?
 - Collateral damage – Will former or current clients be pulled into litigation?

- The Litigation “War Chest”

- What are we willing to spend
 - What is our exit strategy

Defending a Covenant Claim

- Identify
 - The players (direct and indirect)
 - The devices
 - The communication channels
- Preserve
 - Litigation hold memorandum + oversight
 - Email server backup
 - Device custody
- Evaluate
 - Forensics?
 - Employment decisions
 - Exit strategy

Buchanan

Thank you



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Examples

Non-Compete Provision

To the fullest extent permitted by law during the term of Employee's employment with the Company under this Agreement, and for the period of **[months]** after the date of termination of Employee's employment under this Agreement for any reason (the "Non-Compete Period"), Employee will not, directly or indirectly, participate in the ownership, management, operation or control of, or work for or provide consulting services to, any person or entity that is engaged in, or attempting to engage in, any line of business or project which, directly or indirectly, provides any of the services the Company or the Company's Affiliates provide, **in any of the areas where the Company or the Company's Affiliates do business**; provided, however, that this restriction applies only with respect to the Company's Affiliates from whom or with respect to which Employee received or had access to Confidential Information and Trade Secrets.

DISCLAIMER: THIS IS NOT A SAMPLE. EVERY SITUATION VARIES.

Non-Solicit of Customers, Distributors, Etc.

During employment and for **[months]**, Employee will not, directly or indirectly, for Employee's benefit or as an agent or employee of any other person or entity, solicit or induce **any customers, distributors, vendors, licensors or suppliers** of the Company or the Company's Affiliates **that Employee solicited, contacted, or communicated with during Employee's employment**, or for **whom Employee received Confidential Information and Trade Secrets**, to divert their business from the Company or the Company's Affiliates to any other person or entity or in any way interfere with the relationship between any such customer, distributor, vendor, licensor or supplier and the Company or the Company's Affiliates (including, without limitation, making any negative statements or communications about the Company or the Company's Affiliates).

DISCLAIMER: THIS IS NOT A SAMPLE. EVERY SITUATION VARIES.

Non-Solicit and No-Hire Language for Employee

- During employment and for 12 months following, Employee will not directly or indirectly, for Employee's benefit or as an agent or employee of any other person or entity, **solicit the employment or services** of any Person Employed by the Company **or the Company's Affiliates**, **induce** any Person Employed by the Company **or the Company's Affiliates to leave** his or her employment with the Company **or the Company's Affiliates** (other than terminations of employment of subordinate employees undertaken in the course of Employee's employment with the Company), or **hire any Person Employed by the Company or the Company's Affiliates**. For purposes of this Section, the term "Person Employed by the Company or the Company's Affiliates" means any person who is or was an employee of the Company or one of its Affiliates at the time of or within the twelve (12) months preceding the solicitation, inducement, or hiring.

DISCLAIMER: THIS IS NOT A SAMPLE. EVERY SITUATION VARIES.

No-Hire with Consultant or Entity.

During the Term of this Agreement and for a period of **12 months** thereafter, the Consultant will not, directly or indirectly, hire or engage **any of the Company's employees, staff, contractors or consultants**, or solicit or encourage any of the foregoing, to terminate any employment or contract with the Company, nor will the Consultant provide any information concerning such persons to any recruiter or prospective employer without prior written consent from the Company.

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