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Employers Should Narrowly Tailor Noncompetes to Pass Scrutiny, Say Trade-Secrets Attorneys

By Maydeen Merino
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The Federal Trade Commission's attempts to enforce its ban on noncompete agreements will likely intensify amid dueling federal district court decisions regarding the rule's validity and state laws curtailing the restrictive contract provisions, attorneys specializing in trade-secrets law told corporate lawyers Wednesday.

"You should be considering, first of all, auditing your own noncompetes to see if they're the best they can be by way of enforceability, and then considering other means to protect your trade secrets and confidential information," Marina Tsatalis, a Wilson Sonsini partner said at an event sponsored by In-House Connect, which holds continuing legal education sessions.

Tsatalis' advice followed the recent decision of U.S. District Judge Ada E. Brown of the Northern District of Texas that the

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FTC's prohibition on noncompete agreements exceeded the agency's statutory authority. Earlier, U.S. District Judge Kelley Brisbon Hodge of the Eastern District of Pennsylvania denied a motion to stay implementation of the noncompete ban in a lawsuit by a tree-trimming company.

Apart from the decisions, Tsatalis noted California's noncompete law, which directs

the state's courts—with limited exceptions—to refuse to enforce a noncompete provision agreed to in another state by an employee who has since moved to California.

"California, legislatively, has gone a long way, even further than it had been, to curb the enforceability of covenants not to compete," Tsatalis said. "And even this provision where if a covenant not to compete is perfectly lawful and was entered into another state where the employee worked, the employee just needs to move to California for purposes of a new job to have that noncompete nullified."

Amid this regulatory and statutory disdain for noncompetes, companies should keep these contractual provisions narrowly tailored, apply them only to those employees who possess important trade secrets, avoid covenants of indefinite duration or geographic scope, and include a choice of state law provision, Tsatalis added.

"The scope of employees who are required to sign noncompetes should be narrow and thoughtful, and it should be driven by actual access to actual trade secrets," Tsatalis said.

"Courts [have] very carefully scrutinized in the context of noncompete litigation whether what is at issue and what the employee had access to was an actual trade secret, was it actual confidential information," she added. "Many of these cases are lost on that issue because just because we maintain it as confidential or mark it as confidential doesn't necessarily mean that it's going to qualify as confidential information or a trade secret for purposes of properly supporting the covenant not to compete."

Jess Krannich, also a Wilson Sonsini partner, warned that choice of state law provisions have come under fire from courts.

"Let's say that you're incorporated in Delaware, you want to use Delaware law, but you're trying to apply that to an employee who's located in California," Krannich said. "We've had situations where litigation ensues. A California court picks it up and says, 'Wait a minute, there's absolutely no tie from this employee to the choice of the state where the choice of law is designated. We're not going to apply that. We're going to apply our own law, and we're going to strike the clause.'"

Krannich added that employers should be "thoughtful and intentional" when tailoring covenants not to compete.

"If you have a noncompete in any circumstance that is fast and broad, not tailored to the circumstances at issue and has some lengthy time period, then you're at risk in all of those circumstances," he said.