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LIMITATIONS UPON THE ENFORCEABILITY OF AN EMPLOYEE'S COVENANT NOT TO DISCLOSE AND NOT TO USE CONFIDENTIAL BUSINESS INFORMATION WITHOUT AUTHORIZATION

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Abstract

Employee covenants not to disclose and not to use confidential information without authorization are widely used to protect employer trade secrets and other confidential information. However, the covenants are not as routinely enforced as many believe. At a minimum, in addition to satisfying consideration requirements, these covenants should use conventional definitions of "trade secret" and "confidential information," should not elaborate when use is unauthorized, should not alter materially the employer's burden of proving breach, and should be supported by employer practices that both identify and safeguard the confidentiality of protected information.

An enforceable covenant not to disclose and not to use can justify a limited injunction against direct competition. On the other hand, in order to deter deliberately overly-broad covenants, the courts do not and should not judicially modify deliberately overly-broad covenants in order to make them enforceable.

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Introduction

Employers frequently protect[2] their "confidential business information"[3] by requiring employees exposed to the information to execute covenants not to disclose and not to use the information without authorization.[4] "Confidential business information" includes both business information that is a statutory trade secret under state or federal law and information in which a business has a different protectable business interest.[5] These covenants typically apply both during the employment relationship and after the employment relationship has ended.[6]

Enforceable covenants do not bar an employee-signatory from later working for a competitor of the employer as long as both the former employee and the competitor honor the covenant not to disclose and not to use confidential business information.[7] Although the employee-signatory's

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[2] 2 MELVIN F. JAGER, TRADE SECRET LAW § 13:3 (2018) ("Surveys show that a confidentiality agreement or clause is included in virtually all employment agreements used by major corporations.").

[3] "Confidential business information" is also referred to as "Proprietary Information." *See* Pregler v. C&Z, Inc., 575 S.E.2d 915, 917 (Ga. Ct. App. 2003) ("All Proprietary Information and all physical embodiments thereof received or developed by the Employee while employed by the Corporation are confidential to and are and will remain the sole and exclusive property of the Corporation.").

[4] These covenants are also referred to as nondisclosure agreements, or NDAs. *See* JAMES POOLEY, TRADE SECRETS § 8.02 (Law Journal Press 2018) ("Nondisclosure agreements (or 'NDA's') are at the core of trade secret practice.").

[5] *See, e.g.*, Simplified Telesys, Inc. v. Live Oak Telecomm. L.L.C., 68 S.W.3d 688, 692-93 (Tex. App. 2000) (confidentiality covenant provided in part: "Confidential Information" means any Company proprietary information, technical data, trade secrets, or know how).

[6] *See infra* note 34 and accompanying text.

[7] *See, e.g.*, Raven Indus., Inc. v. Lee, 783 N.W.2d 844, 851 (S.D. 2010) ("Lee was not restricted by his non-disclosure agreements from working at Integra; instead, Lee was only prohibited from using Raven's secret, confidential or proprietary information while working at Integra."); *see also* Revere Transducers, Inc. v. Deere & Co., 595 N.W.2d 751, 761 (Iowa 1999) ("[N]ondisclosure agreements seek to restrict

job mobility may be impaired by an existing direct competitor's unwillingness to risk a confrontation with the employer that imposed the covenant, this particular employee interest is not given great weight in traditional restraint of trade analysis.[8]

Treatise writer Melvin Jager distinguished sharply between covenants not to disclose and not to use confidential business information and covenants expressly limiting competition with a former employer:

> A restrictive covenant stands on an entirely different footing than a confidentiality agreement. A restrictive covenant is an agreement not to compete. By definition it is a restraint of trade. The issue is whether the restrictions are reasonable. . . .[9] Covenants not to compete must relate to a protectable interest and be reasonable in time and territory. . . . A confidentiality agreement is not subject to any time or territory limitations.[10]

As Mr. Jager indicates, the enforceability of employment covenants traditionally has been determined by state common-law rules dealing with contracts in unreasonable restraint of trade,[11] supplemented by statutes in a number of states.[12]

Mr. Jager's observations are applicable only to covenants not to disclose and not to use confidential business information that are not, in substance, covenants not to compete. In *Service Centers of Chicago, Inc. v. Minogue*, the court stated:

> By defining confidential information as essentially all of the information provided by Deliverex to Minogue "concerning or in any way relating" to the services offered by Deliverex, the confidentiality agreement amounts in effect to a post-employment covenant not to compete which is completely unrestricted in duration or geographical scope. This type of covenant is unreasonable and will not be enforced.[13]

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disclosure of information, not employment opportunities."), *rev'd on other grounds on remand*, 637 N.W.2d 189 (Iowa 2001).

[8] *See Revere*, 595 N.W.2d at 761.

[9] JAGER, *supra* note 2, at §§ 13.4, 13.12, 13.13.

[10] *Id.* at §§ 13.3, 13.7; *see also* Mai Basic Four, Inc. v. Basis, Inc., 880 F.2d 286, 287–88 (10th Cir. 1989). *Mai Basic* predicted New Mexico law. The decision contains broad language similar to that of Mr. Jager with respect to confidentiality covenants. *Mai Basic*, 880 F.2d at 288. However, the holding of the case is that continued at-will employment is sufficient consideration for a confidentiality covenant. *Id.*

[11] For a discussion of the development of the common law with respect to employment covenants *see, e.g.*, Hess v. Gebhard & Co., 808 A.2d 912, 917–18 (Pa. 2002).

[12] California has a statute invalidating most covenants not to compete. *See* Cal. Bus. & Prof. Code § 16600 (West 2018). The Texas statute is more limited. *See* Tex. Bus. & Comm. Code §§ 15.50-15.52 (West 2018). Four states restrict the enforceability of covenants not to compete to narrow circumstances: California, Louisiana, North Dakota, and Oklahoma. *See* Sharon K. Sandeen & Elizabeth A. Rowe, *Debating Employee Non-Competes and Trade Secrets*, 33 SANTA CLARA COMPUTER & HIGH TECH. L.J. 438, 443 (2017).

[13] Service Ctrs. of Chi. v. Minogue, 535 N.E.2d 1132, 1137 (Ill. App. Ct. 1989).

This article explores the distinctions between confidentiality covenants that are and are not, in substance, covenants not to compete, including the special issue of confidentiality covenants that are not in substance covenants not to compete, but nevertheless can be part of the justification for a limited injunction against the former employee working for a direct competitor of the employer requiring the confidentiality covenant.[14]

I. The Two Methods of Protecting Confidential Business Information

A. Statutory Trade Secret Rights

In the United States, confidential business information that is a trade secret can be protected both by state and federal statutory trade secret misappropriation actions and by employment covenants.[15] The state-enacted Uniform Trade Secrets Act (UTSA)[16] reformulates the tort of trade secret misappropriation and preempts duplicative noncontractual remedies in an enacting state.[17] The UTSA initially was adopted in 1979 and officially amended in 1985[18] by the Uniform Law Commission.[19] The Commission reports UTSA as having been enacted by forty-eight states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.[20] § 7(b) of the

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[14] *See, e.g.*, PepsiCo v. Redmond, 54 F.3d 1262 (7th Cir. 1995) (affirming the trial court's grant of a preliminary injunction against a former employee's working for a major direct competitor of the employee's former employer for approximately five months and from ever disclosing the former employer's trade secrets and other confidential information). *PepsiCo* was decided under the Illinois enactment of the UTSA. *See infra* note 16 and accompanying text. *See generally,* Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH & INTELL. PROP. 167 (2005).

[15] *See* David S. Almeling, et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 58, 68–69 (2011) (explaining that business associates of persons with trade secret rights, e.g., licensees, customers, joint venturers, distributors, and suppliers also are required to execute protective covenants).

[16] UNIF. TRADE SECRETS ACT §§ 1–12, 14 U.L.A. 529–659 (Master ed. 2005), 108–66 (2018 Supp.). Decisions under state enactments of UTSA are identified in the notes of decisions.

[17] *Id*. at § 7(a). *See generally* Richard F. Dole, Jr., *Preemption of Other State Law by the Uniform Trade Secrets Act*, 17 SMU SCI. & TECH. L. REV. 95 (2014) [hereinafter Dole, *Preemption*].

[18] See supra note 16.

[19] UNIF. TRADE SECRETS ACT, 14 U.L.A. at III. (The ULC was organized in 1892 to promote desirable and practicable uniformity in state law. Commissioners, who must be members of bar, are appointed by every state, the District of Columbia, and Puerto Rico.)

[20] *See Trade Secrets Act*, UNIF. LAW COMM'N, https://www.uniformlaws.org (searching "trade secrets act" will show that the UTSA has yet to be enacted in New York and North Carolina). Widespread enactment of the UTSA has been a factor in the increasing importance of trade secret law. *See* David S. Almeling, *Seven Reasons Why Trade Secrets Are Increasingly Important,* 27 BERKELEY TECH. L.J. 1091,

widely-adopted 1985 version of the UTSA excepts from preemption "contractual remedies, whether or not based upon misappropriation of a trade secret."[21] An Official Comment to both the 1979 and the 1985 versions of § 7 refers to covenants not to disclose trade secrets and covenants not to compete intended to protect trade secrets as examples of contracts that are not preempted.[22] On the other hand, contractual variations of the UTSA definitions of "trade secret" and "misappropriation" are unenforceable.[23]

In 2016, Congress enacted the federal Defend Trade Secrets Act (DTSA), which added private remedies modeled after the UTSA to a federal criminal statute and amended the federal statute's definition of "trade secret" to conform more closely to the UTSA definition.[24] The DTSA preempts only state laws conflicting with the whistleblower defense to trade secret misappropriation that the DTSA creates.[25] State enactments of the UTSA and state employment covenant law are not preempted.[26]

B. Employment Covenant Rights

Both the state UTSA and the federal DTSA allow state employment covenant law to supplement statutory trade secret protection, relying upon the courts to avoid a double recovery if a plaintiff sues for violation of both a statute and an employment covenant.[27] State employment covenant

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1106 (2012) ("Reason No. 4: The UTSA . . . widespread enactment of the UTSA has increased awareness of trade secret law.").

[21] UNIF. TRADE SECRETS ACT § 7(b)(1). Most states have enacted either 1985 § 7(b) or a nonuniform variation. The only states with the 1979 version of § 7(b) are Alaska, Arkansas, Connecticut (with a nonuniform amendment), Louisiana, and Washington. *See* Dole, *Preemption*, *supra* note 18, at 98 & nn.22 & 25.

[22] *See* UNIF. TRADE SECRETS ACT § 7, Official Comment, 14 U.L.A. 651 (2005).

[23] See Richard F. Dole, Jr., The Contract Exception to the Uniform Trade Secrets Act and Its Implications for the Federal Defend Trade Secrets Act, 34 SANTA CLARA HIGH TECH. L.J. 362, 371 (2018) [hereinafter Dole, The Contract Exception].

[24] *Id.* at 384–85.

[25] *See* 18 U.S.C. § 1838 (2012 & Supp. IV 2017). The DTSA whistleblower provisions are based upon an earlier version of the following article: Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1 (2017). Their premise is that employees, consultants, and independent contractors should be free confidentially to report suspected illegal conduct even if they have signed a confidentiality agreement. *Id.* at 63. Prior to the enactment of the DTSA, confidentiality agreements were used to silence whistleblowers. *See* Jodi L. Short, *Killing the Messenger: The Use of Nondisclosure Agreements to Silence Whistleblowers*, 60 U. PITT. L. REV. 1207 (1999). The whistleblower provisions do not restrict immunity to confidential disclosures of trade secrets that are made during an investigation of the trade secret owner. Jordan J. Altman, et al., *License to Leak: The DTSA and the Risks of Immunity*, 28 INTELL. PROP. & TECH. L. REV. 6, 7 (2016).

[26] Dole, *The Contract Exception*, *supra* note 23, at 390–91.

[27] *Id.* at 379–80, 392.

law goes beyond the scope of trade secret law and protects "confidential business information" that is not a state or a federal "trade secret."[28]

II. Employment Covenants Not To Disclose and Not To Use Confidential Business Information Without Authorization

Employment covenants not to disclose and not to use confidential business information that is a trade secret supplement statutory trade secret remedies; whereas employment covenants not to disclose and not to use confidential business information that is not a trade secret apply to business information in which the employer has a different protectable business interest. As a general proposition, protectable business information that is not a trade secret consists of nonpublic information that is treated by the employer as confidential and provides a business advantage to the employer because of its confidentiality,[29] including, for example, nonpublic cost information.[30] In order to avoid undue restriction of employee mobility, protectable business

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[28] *See, e.g.*, Modern Controls, Inc. v. Andreadakis, 578 F.2d 1264, 1268 (8th Cir. 1978) ("The Minnesota Supreme Court has held that confidential business information which does not rise to the level of a trade secret can be protected by a properly drawn covenant not to compete"). *See also* Johns-Manville Corp. v. Guardian Indus. Corp., 586 F. Supp. 1034, 1074 (E.D. Mich. 1983), *aff'd mem*., 770 F.2d 178 (Fed. Cir. 1985) (contract forbidding disclosure of secret or confidential information even if not patented or a trade secret is enforceable under Michigan law); Gary's Auto Parts, Inc. v. Worden, No. UWYCV095015363S, 2011 WL 383795 at *1, *4 (Conn. Super. Ct. Jan. 4, 2011) (Connecticut enactment) (contract to refrain from disclosing or using former employer's confidential information not preempted by the UTSA); McKesson Medical-Surgical, Inc. v. Micro Bio Medics, Inc., 266 F. Supp.2d 590, 596–97 (E.D. Mich. 2003) ("In this Court's opinion, customer lists developed by the employee are not protectable 'trade secrets'. . . . If an employer wishes to restrict an employee's use of such information after the employment relationship is terminated, the employer must do it with an appropriate non-competition agreement.") (Michigan enactment).

[29] *See* RESTATEMENT OF EMP'T LAW § 8.07(b)(1) & cmt. b, at 470–71 (AM. LAW. INST. 2014). The South Carolina Supreme Court has held the following definition to be appropriate:

> CONFIDENTIAL INFORMATION means all competitively sensitive information of importance to and kept in confidence by Milliken, which becomes known to me through my employment with Milliken and which does not fall within the definition of Trade Secret above. Such Confidential Information may be valuable to Milliken because of what it costs to obtain, because of the advantages that Milliken enjoys from its exclusive use, or because its dissemination may harm Milliken's competitive position.

Milliken & Co. v. Morin, 731 S.E.2d 288, 290 (S.C. 2012).

[30] Confidential business information also includes customer lists, specific information about customers, and pricing formulas. *See* Chris Montville, *Reforming the Law of Proprietary Information*, 56 DUKE L.J. 1159, 1170–72 (2007).

information does not include the personal experience, knowledge, and skill that, as a matter of public policy, an employee is free to take from one job to another.[31]

A. A Typical Covenant

A typical employment covenant not to disclose and not to use confidential business information provides:

> Confidential Information includes all proprietary information, trade secrets, knowledge, information, and materials about the products, services, know-how, research and development, customers, or business plans and practices of the Company, its customers, or others from whom the Company has received information under an obligation of confidence.[32]
>
> All Confidential Information and rights relating to Confidential Information are the sole property of the Company. I will not disclose to anyone outside the Company or use any Confidential Information either during or after my employment without the Company's prior written permission except as may be necessary in the ordinary course of performing my duties as an employee of the Company.
>
> Upon the termination of my employment by the Company for any reason, I will deliver to the Company all documents and other materials relating to my work with the Company and will not take with me any of the foregoing or any reproduction thereof or anything containing any, or relating to any, Confidential Information.[33]

Information that either is or becomes public implicitly is excluded from the definition of confidential information. Additional express exclusions typically consist of illustrations of nonconfidential information like "information generally known or available to the public or recognized as standard practice."[34]

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[31] Dynamics Res. Corp. v. Analytic Sci. Corp., 400 N.E.2d 1274, 1282 (Mass. App. Ct. 1980) (holding that a confidentiality covenant covering both trade secrets and other confidential information did not prevent a former employee from using his general skill and knowledge in a later job).

[32] The definition of "confidential information" is derived from the definition in *Speechworks International, Inc. v. Cote*, No. 024411-BLS, 2002 WL 31480290 at *2 (Mass. Super. Ct. Oct. 11, 2002).

[33] The remainder of the confidentiality clause is derived from Rowe, *supra* note 14, at 189.

[34] *See, e.g.*, PepsiCo v. Redmond, 54 F.3d 1262, 1264 (7th Cir. 1995) (contract stating, "w[ould] not disclose at any time, to anyone other than officers or employees of [PepsiCo], or make use of confidential information relating to the business of [PepsiCo] . . . obtained while in the employ of [PepsiCo], which shall not be generally known or available to the public or recognized as standard practices") (Illinois enactment).

Although the illustrative clauses do not include an exception for disclosures required by law, this express exception is desirable.[35] A clause also should include the notice of whistleblower immunity required by the federal DTSA that allows an employer to hold employees, independent contractors, and consultants that commit trade secret misappropriation liable under the DTSA for the employer's attorney's fees and exemplary damages.[36] The DTSA gives whistleblowers immunity under federal and state civil and criminal law for confidential disclosures, for example, in a document filed in court under seal, trade secrets to a federal, state, or local governmental official, and to their own attorney solely for the purpose of investigating or reporting a suspected violation of law.[37]

The definition of Confidential Information in the above clause is open-ended. The addition of the following language to the definition not only makes crystal clear that the definition is deliberately open-ended, but also provides an objective test for Confidential Information:

> I understand that the above list is not exhaustive, and that Confidential Information also includes all other information that is marked or otherwise identified as confidential or proprietary or that otherwise would appear to a reasonable person to be confidential or proprietary from the context and circumstances in which the information is known or used.[38]

Additional useful clauses: add nonpublic information developed by the employee-signatory in the course of his or her employment to the definition of "confidential information";[39] acknowledge that unauthorized disclosure or use of Confidential Information will cause irreparable harm to the employer for which the remedy at law is inadequate;[40] state that the agreement is the parties' entire agreement on the subject, superseding all prior and

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[35] An employee also should be required to give an employer prompt written notice of a required disclosure. *See, e.g.*, *Employee Confidentiality and Proprietary Rights Agreement (IL)*, § 1(b)(ii) or (iii) & (iv), WESTLAW: PRACTICAL L. LAB. & EMP., https://us.practicallaw.thomsonreuters.com/8-577-6105 [hereinafter *Illinois Agreement*] (referring *inter alia* to disclosures required by the Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Occupational Safety and Health Administration and the National Labor Relations Board).

[36] 18 U.S.C § 1833(b)(3)(C) (2012 & Supp. IV 2017). The notice is required to be included in contracts dealing with use of either trade secrets or confidential information either entered into or updated after the May 11, 2016 effective date of the DTSA. *Id.* § 1833(b)(3)(D). *See, e.g.*, *Illinois Agreement*, *supra* note 36, § 1(b)(v). With respect to the DTSA whistleblower provisions, *see generally* Dole, *The Contract Exception*, *supra* note 23, at 387–88.

[37] 18 U.S.C. § 1833(b)(1)(A) & (B) (2012 & Supp. IV 2017).

[38] *See Illinois Agreement, supra* note 35, § 1(a)(para. 3).

[39] *Id.* § 1(a)(para. 4).

[40] *Id.* § 1(a)(para. 1). Irreparable harm and the inadequacy of the remedy at law are preconditions to injunctive relief.

contemporaneous oral and written understandings;[41] and choose a governing law under which the covenant is enforceable.[42]

If an employer attempts to enforce a confidentiality covenant without a definition of "confidential information" or with a vague or an open-ended definition which has not been clarified by the employer's confidentiality practices, like the legending of specific information as confidential, a court is likely to determine that the employer has given insufficient notice of the information's confidentiality and find for the defendants.[43]

B. The Enforceability of Covenants

1. Most States Liberally Enforce Covenants Not to Disclose and Not to Use

A few states treat covenants not to disclose and not to use confidential information like covenants not to compete by requiring reasonable durational and geographical limitations.[44] On the other hand, most states, including the four states with a nonuniform amendment to the UTSA so providing, consider that durational and geographical limitations are not necessarily required.[45]

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[41] *Id.* § 11. This clause makes the Parole Evidence Rule applicable to the agreement.

[42] *Id*. § 10.

[43] *See* Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 903 (Minn. 1983) (reversing judgment for trade secret misappropriation with the comment: "The employee [confidentiality] agreements do not help EEC's claim for the same reason—EEC never treated specific information as secret. Therefore, the agreements' vague language prohibiting employees from taking "secrets" did not create a duty of confidentiality in the employee, and no misappropriation occurred"); *accord,* Sun Media Sys., Inc. v. KDSM, LLC, 564 F. Supp. 2d 946, 971 (S.D. Iowa) ("Given that Sun Media's claimed trade secrets are so amorphous as to be nearly incomprehensible, the Court must conclude that it would be inappropriate and, indeed, unjust to find that the generic confidentiality clause employed by Sun Media was sufficient to put Defendants on notice that Sun Media claimed trade secret rights in everything from choosing door prizes to printing coupons."); Dynamics Res. Corp. v. Analytic Sci. Corp., 400 N.E.2d 1274, 1288 (Mass. App. Ct. 1980) ("We conclude that any reliance on the non-disclosure agreement is misplaced, for neither the conduct of the parties nor the information sought to be covered gives content to the agreement.").

[44] *See, e.g.*, Pregler v. C&Z, Inc., 575 S.E.2d 915, 917 (Ga. Ct. App. 2003) ("This nondisclosure clause has no time limitation. A nondisclosure clause with no time limit is unenforceable as to information that is not a trade secret."). A nonuniform amendment to the Georgia enactment of the UTSA provides that a contractual duty to maintain the secrecy of a trade secret shall not be deemed unenforceable solely for lack of a durational or geographical limitation on the duty. Ga. Code Ann. § 10-1-767(b)(1) (2018).

[45] *See, e.g.*, Revere Transducers, Inc. v. Deere & Co., 595 N.W.2d 751, 762 (Iowa 1999) ("We further conclude . . . that the absence of restrictions concerning time or geographic location do not render a nondisclosure-confidentiality, agreement presumptively unenforceable."); Bernier v. Merrill Air Engineers, 770 A.2d 97, 104 (Me. 2001) ("[W]e do not agree with Bernier's contention that the nondisclosure clause is unreasonable because it is not limited in duration. We do not find that durational

With respect to duration, absent unequivocal language to the contrary, a confidentiality agreement is construed to impose an obligation of confidentiality only until information becomes generally known or readily ascertainable by proper means.[46]

2. The Necessity of Bargained for Consideration

Bargained for consideration can be required for an employment covenant to be enforceable. There is no consideration problem with respect to covenants entered into in conjunction with initial employment. Employment-at-will in exchange for a covenant is sufficient bargained for consideration.[47] With respect to covenants either signed a substantial time after initial employment or materially changing an initial covenant, the weight of authority also accepts continued employment-at-will as sufficient consideration,[48] but there is a significant minority view that requires new consideration, for example, a promotion or a pay raise.[49]

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limits are necessary in nondisclosure clauses, as they are in noncompete agreements, because the 'imposition of geographic or durational limitations would defeat the entire purpose of restricting disclosure, since confidentiality knows no temporal or geographical boundaries.'" (quoting *Revere*, 595 N.W.2d at 761)). The states with nonuniform UTSA amendments are Georgia, Illinois, South Carolina, and Tennessee. *See* note 80 *infra* and accompanying text.

[46] *See, e.g.*, Conmar Prods. Corp. v. Universal Slide Fastener Co., 172 F.2d 150, 156 (2d Cir. 1949) (Chief Judge Learned Hand writing "inescapable terms" required to construe a confidentiality contract as continuing in effect with respect to information that has become public knowledge); Dollac Corp. v Margon Corp., 164 F. Supp. 41, 59 (D.N.J. 1958) ("specific provision" required for confidentiality agreement to continue in effect after public disclosure of information), *aff'd*, 275 F.2d 202 (3d Cir. 1960). A confidentiality agreement that expressly remains in effect after information becomes public requires justification other than protection of secrecy or confidentiality. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. d (AM. LAW INST. 1995) ("[E]nforcement of an agreement that is interpreted to prohibit the promisor from using information even after it has entered the public domain cannot be justified by the interest in protecting confidential information. . . .").

[47] *See, e.g.*, Basicomputer Corp. v. Scott, 973 F.2d 507, 511 (6th Cir. 1992) ("When, as here, an employee begins work with the understanding that a covenant is a condition of employment, the covenant is adequately supported by consideration even if it is not signed until later.").

[48] RESTATEMENT OF EMP'T LAW § 8.06 cmt. e (AM. LAW. INST. 2014); *see, e.g.*, Comput. Sales Int'l, Inc., v. Collins, 723 S.W.2d 450, 452 (Mo. Ct. App. 1986) ("We hold that continued employment for 2 1/2 years of an at-will employee, does constitute sufficient consideration for a restrictive covenant").

[49] Freeman v. Duluth Clinic, Ltd., 334 N.W.2d 626, 627–28, 630 (Minn. 1983) (covenant not to compete signed three years after initial employment unenforceable due to lack of new consideration). New consideration is most likely to be required to add a covenant not to compete to an employment contract. *See id*. *But see*, Mirafi, Inc. v. Murphy, No. CIV. A. C-C-87-578M, 1989 WL 206491 at *18 (W.D.N.C. Oct. 23, 1989) ("The Court has . . . found that Murphy's signing of. . . [the confidentiality] agreement was not supported by any separate consideration, other than possibly Mirafi's agreement to continue his employment. Accordingly, the Court concludes that the alleged confidentiality agreement is void for lack

Consideration is immaterial with respect to new covenant provisions concerning trade secrets breached during employment that were agreed to an appreciable time after initial employment. An employee owes a common-law duty of loyalty to his or her current employer. A confidentiality agreement signed substantially after initial employment is sufficient to put a current employee on notice that disclosure or use of trade secrets identified by the employer is a violation of the employee's common-law duty of loyalty.[50] However, there is an issue whether a former employee has a common-law duty of loyalty to a former employer.

The 2015 Restatement of Employment Law takes the position that a former employee has a common-law duty of loyalty to protect a former employer's trade secrets.[51] But a commentator has observed that the Restatement of Employment Law cites no cases supporting extension of the duty of loyalty to former employees.[52] Unless the Restatement influences an expansion of the common-law duty, new consideration is required by some states to make enforceable against a former employee an employment covenant signed an appreciable time after the employment relationship commenced but before the relationship ended.

3. The Employer Misconduct and Public Policy Exceptions to Enforceability

The Restatement of Employment Law states that otherwise enforceable employment covenants should not be enforced if: the employer discharged the employee on a basis that makes enforcement of the covenant inequitable; the employer acted in bad faith in requiring or invoking the covenant; the employer materially breached the underlying employment agreement; or, in the geographic region covered by the restriction, a great public need for the special skills and services of the former employee outweighs the legitimate interest of the employer in enforcing the covenant.[53] In other words, these exceptions to enforceability apply to employment

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of consideration."), *aff'd in part on other grounds and rev'd in part on other grounds*, 928 F.2d 410 (Fed. Cir. 1991).

[50] *See, e.g.*, Aries Info. Sys., Inc. v. Pacific. Mgmt. Sys. Corp., 366 N.W.2d 366, 369 (Minn. Ct. App. 1985) ("A duty of employer/employee confidentiality can arise at common-law if the employee is given notice what material is to be kept confidential . . . [t]he duty existed because the confidentiality agreements, whether supported by consideration or not, put appellants on notice that all Aries' information was confidential"). The common law duty of loyalty also protects an employer's confidential information that is not a trade secret. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. b.

[51] RESTATEMENT OF EMP'T LAW § 8.03(a). The Restatement does not apply its postemployment duty of loyalty to confidential information that is not a trade secret. *But cf. id.* at § 8.07(b)(1) (an employment covenant can protect both trade secrets and other confidential information).

[52] Michael Selmi, *The Restatement's Supersized Duty of Loyalty Provision*, 16 EMP. RTS. & EMP. POL'Y J. 395, 406 (2012) ("There are . . . no cases cited that impose a duty of loyalty after the employment relationship has ended").

[53] RESTATEMENT OF EMP'T LAW § 8.06. The "great public need" exception to enforceability has been most often applied to covenants that prevent a medical professional from practicing in a small town or a

covenants that have "the effect of substantially limiting employees from competing with their former employer."[54] The exceptions do not apply to a covenant not to disclose and not to use confidential information, unless, in the circumstances of the particular case, the covenant substantially interferes with the former employee's competing with the former employer. Rights in trade secrets and other confidential information with substantial value should not be jeopardized, for example, by an employer's breach of an employee's contract of employment that causes far less compensable damage.[55]

C. Covenants That, in Substance, Are Covenants Not to Compete

1. <u>The *Minogue* Tests</u>

Service Centers of Chicago, Inc. v. Minogue[56] invalidated a covenant not to disclose and not to use confidential information as, in substance, a covenant not to compete.[57] The case involved a covenant with the following three provisions:

> 1. *Acknowledgment of Trade Secrets.* The Employee hereby acknowledges that the information and materials provided to him/her by the Company and/or Deliverex, Inc., Securex, Inc., its employees, franchisees, agents, or business advisors concerning or in any way relating to the Company, Deliverex, Inc. and/or Securex, Inc., or services or products associated with the trademark Securex, Inc. and/or Deliverex, Inc. are confidential and are trade secrets.
> *2. Covenant Not to Disclose.* The Employee hereby agrees not to disclose or disseminate any information or material provided to him/her by the Company, Securex, Inc. and/or Deliverex, Inc. or their employees, agents, or business advisers to any person or entity whatsoever other than the Employee's attorneys, accountants or business advisors.
> *3. Restriction on Use.* The Employee agrees that he/she will not use any confidential information or trade secrets received from Securex, Inc. and/or Deliverex, Inc. or their employees, franchisees, agents or business advisors in the event that the Employee leaves his/her employment with the Company. To that end, it is agreed that if the Employee engages in a business similar to the business of the Company, Securex, Inc. and/or Deliverex, Inc., within a period of two (2) years of the date the Employee discontinues his/her employment with the Company, the Employee shall assume the burden of proving that the Employee has not used any such confidential information or trade secrets in such business, regardless of the geographical location of the Employee's business.[58]

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rural area in which either there are too few medical practitioners or too few medical practitioners with a specific specialty. *Id.* at § 8.06 cmt. i.

[54] *Id.* § 8.06 cmt. b.

[55] *Cf.* RESTATEMENT OF EMP'T LAW§ 8.03(c) ("The employee's [duty of loyalty] obligation not to disclose or to use the employer's trade secrets . . . continues beyond termination of the employment relationship regardless of the reason for termination.").

[56] 535 N.E.2d 1132 (Ill. App. Ct. 1989).

[57] *Id.* at 1137.

[58] *Id.* at 1133–34.

The plaintiff, Service Centers, Inc., doing business as Deliverex, Inc., a franchisee of Securex, Inc., brought suit against Filefax, Inc. and its founder, Jeffrey Minogue. Deliverex trained Minogue in sales and employed him for five months before he left to form Filefax to compete with Deliverex in providing medical record storage services to hospitals. The trial court issued a preliminary injunction, enjoining the defendants from using Deliverex's confidential information and trade secrets for two years after Minogue left Deliverex.[59] An Illinois intermediate appellate court reversed, holding that: (1) the plaintiff had not proved the likelihood of a protectable trade secret; and (2) the clause two definition of confidential information was overbroad and unenforceable.[60] The court observed:

> By defining confidential information as essentially all of the information provided by Deliverex to Minogue "concerning or in any way relating" to the services offered by Deliverex, the confidentiality agreement amounts in effect to a post-employment covenant not to compete which is completely unrestricted in duration or geographical scope. This type of covenant is unreasonable and will not be enforced.[61]

In other words, the court considered the expansive definition of confidential information to include substantial nonconfidential information in which Deliverex had no protectable business interest. Moreover, the definition's deceptive clarity could mislead employees bound by the covenant into acquiescing in its enforceability.

The *Minogue* court did not address clause three, which was an unrestricted prohibition upon competition for a different reason. By placing the burden of proof upon former employees, the clause essentially creates a presumption of breach if an employee works for a competitor within two years after leaving Deliverex. Clause three would require Minogue to prove that he did not disclose or use Deliverex's trade secrets or confidential information if he went to work for a

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[59] *Id.* at 1133–35; *see also* 1133 n.1.

[60] *Id.* at 1137.

[61] *Accord* McGough v. Nalco Co., 496 F. Supp. 2d 729, 756–57 (N.D.W. Va. 2007) (denying preliminary injunction where covenant was unrestricted in duration and geographic scope). *See* Orca Communications Unlimited, LLC v. Noder, 314 P.3d 89, 95 (Ariz. Ct. App. 2013) *rev'd & partially withdrawn on other grounds*, 337 P.3d 545 (Ariz. 2014) ("The definition's overbreadth makes the confidentiality covenant unenforceable. Not only does it impermissibly prohibit Noder from using public information, its prohibition of Noder's use of any information she may have learned from her employment with Orca is nothing more than an unlimited restriction upon competing with Orca."); *see also* MAI Basic Four, Inc. v. Basis, Inc., 880 F.2d 286, 287–88 (10th Cir. 1989) (involving a similar definition of "confidential information"). The Tenth Circuit resolved the case upon other issues and did not rule on the defendants' argument that the definition was too broad. *Id.*

competitor within two years after leaving Deliverex.[62] The clause essentially creates a presumption of breach that Minogue has to prove negatives to rebut.[63]

Reallocating the burden of proof with respect to breach of the covenant is anticompetitive. With respect to an ordinary covenant not to disclose and not to use, an employer has the burden of proving breach and is denied relief with some frequency.[64] The burden shift enhances the likelihood that a former employer will prevail in litigation. Former employers accordingly will be more willing to assert and to sue for breach.[65]

Moreover, a covenant not to disclose and not to use, that details when use is not permissible, deals with the subject matter of a covenant not to compete.[66] Its burden of proof reversal suffices to make *Minogue* clause three, in substance, a covenant not to compete.[67]

An even more anticompetitive contractual presumption is that a former employee going to work in a similar position for a broadly-defined competitor anywhere in the United States "necessarily

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[62] *Minogue*, 535 N.E.2d at 1133–34.

[63] *Cf.* Thomas A. Mitchell, *Undermining the Initial Allocation of Rights: Copyright Versus Contract and the Burden of Proof*, 27 HASTINGS COMM. & ENT. L.J. 525, 541 (2005) ("Proving a negative is 'a difficult task in the best of cases.' Thus, it seems reasonable to place the burden on the party who would not be forced to prove a negative.") (footnote omitted).

[64] *See, e.g.*, Citadel Broad. Co. v. Gratz, 52 Pa. D & C.4th 534, 548–52 (Ct. Com. Pl. 2001) (plaintiff did not prove that its former employee had misappropriated protected information). In granting the plaintiff's motion for voluntary dismissal and the defendants' motion for sanctions for bringing a bad faith action, another trial judge commented:

> [M]ost of Plaintiff's theories are a thinly disguised attempt to turn Burnett's confidentiality agreement into a noncompetition agreement. The gravamen of the complaint is that Burnett and Sika behaved unfairly and unlawfully simply because Burnett used his relationships with Degussa customers in a manner that would have violated a non-competition agreement-an agreement that Burnett never signed.

Degussa Admixtures, Inc. v. Burnett, 471 F. Supp.2d 848, 857 (W.D. Mich. 2007), *aff'd*, 277 Fed. App'x. 530 (6th Cir. 2008).

[65] *Cf.* Robert W. Gomulkiewicz, *Leaky Covenants-Not-to-Compete as the Legal Infrastructure for Innovation*, 49 U.C. DAVIS L. REV. 251, 280–83 (2015) (litigation costs, proof problems, and uncertain outcomes deter litigation with respect to covenants not to compete).

[66] A covenant not to disclose and not to use should confine itself to a declaration that use is not permitted without authorization.

[67] *See* Fay v. Total Quality Logistics, LLC, 799 S.E.2d 318, 323 (S.C. Ct. App. 2017), *cert. granted* (Feb. 1, 2018) (invalidating as a covenant not to compete without reasonable limitations, a contractual presumption that a former employee going to work in a similar position for a broadly-defined competitor anywhere in the U.S. "necessarily and inevitably will result" in breach of a covenant not to disclose and not to use).

and inevitably will result” in the employee basing business decisions upon the former employer’s confidential information and trade secrets.[68]

A variant of *Minogue* clause two’s overbroad definition of confidential information is a covenant not to disclose and not to use trade secrets that defines trade secrets as everything learned while working for an employer. A stock redemption agreement in *Carolina Chemical Equipment Co. v. Muckenfuss*[69] provided:

> [Seller] agrees to not divulge any trade secrets of the Corporation. Trade secrets means any knowledge or information concerning any process, product, or customer of the Corporation and more generally any knowledge or information concerning any aspect of the business of the Corporation which could, if divulged to a direct or an indirect competitor, adversely affect the business of the Corporation, its prospects or competitive position. Seller shall not use for his own benefit any trade secret of the Corporation in any manner whatsoever.[70]

The trial court granted the former employer permanent injunctive relief. But, the majority of the intermediate appellate court panel held that the covenant not to disclose and not to use was unenforceable as a matter of law. As in *Minogue,* the covenant defined the protected information to include virtually all information that Muckenfuss acquired during his employment.[71] On remand, the trial judge was instructed to enter a directed verdict for the defendants.[72]

In sum, a covenant not to disclose and not to use trade secrets and other confidential information without authorization is unenforceable where administration of the covenant does not include confidentiality practices, like legending the confidential information, restricting access to the confidential information, and requiring all persons provided the confidential information agree to a covenant not to disclose and not to use. Moreover, overbroad definitions of confidential information and trade secrets that include virtually everything learned during employment are unenforceable.

2. Unmodifiable Bad Faith Overly-Broad Covenants

In a majority of states, courts have discretion to blue pencil overly broad employment covenants, curing overbreadth by judicial modification of the terms.[73] However, courts decline modification

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[68] Id.

[69] 471 S.E.2d 721 (S.C. Ct. App. 1996).

[70] *Id.* at 723.

[71] *Id.* at 725.

[72] *Id.*

[73] *See, e.g.,* Dean Van Horn Consulting Assocs., Inc. v. Wold, 395 N.W.2d 405, 406–09 (Minn. Ct. App. 1986) (unenforceable covenant precluded former employee from soliciting or providing services for three years to a customer of the former employer with whom the former employee had dealt; the trial court modified the period of restraint from competition to one year, which was reasonable, and was affirmed). *See, generally,* RESTATEMENT OF EMP’T LAW § 8.08 (AM. LAW. INST. 2014) (“A court may delete or

if a covenant does not permit judicial modification or an employer lacked a reasonable, good faith belief that the covenant was enforceable. By leaving unchanged unenforceable covenants, courts deter overbroad drafting.[74] Multiple instances of overbroad covenants signed by the same employee, as in *Minogue*, also can render judicial modification inappropriate.[75]

Substantial legal authority holds that a covenant not to disclose and not to use that defines confidential information,[76] trade secret,[77] or both, as everything learned during employment has bad faith overbreadth and should not be judicially modified or enforced.[78] This is also true with respect to covenants not to disclose and not to use that presume employment by a competitor will involve either inevitable unauthorized disclosure or use, or shift the burden to require a former employee to prove that no unauthorized disclosure or use has or will occur.[79]

This analysis has not been altered with respect to trade secrets by nonuniform amendments to the UTSA. The nonuniform UTSA amendments in Georgia, Illinois, South Carolina, and Tennessee, in substance, state that a contractual duty to maintain secrecy or to limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of a durational or a

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modify provisions in an overbroad restrictive covenant in an employment agreement and then enforce the covenant."); *see also id.* § 8.08 cmt. a ("Section 8.08 describes the rule in the majority of U.S. jurisdictions."). In a few states, unenforceable provisions must stand or fall on their own merits and cannot be modified by the courts. *See, e.g.*, Fay v. Total Quality Logistics, LLC, 799 S.E.2d 318, 324 (S.C. Ct. App. 2017), *cert. granted* (Feb. 1, 2018):

> [I]t would violate public policy for this Court or the circuit court to accept the invitation of paragraph twelve and rewrite portions of the Agreement or insert a reasonable time restriction for paragraphs four and six because it would add a term to the Agreement to which the parties neither negotiated nor agreed.

A limited number of states confine blue penciling to the striking of grammatically severable text. Courts will not revise, rearrange, or add language. *See, e.g.*, Hartman v. O.H. Odell & Assocs., 450 S.E.2d 912, 920 (N.C. Ct. App. 1994) ("North Carolina's 'blue pencil' rule severely limits what the court may do to alter the covenant. A court at most may choose not to enforce a distinctly separable part of a covenant in order to render the provision reasonable. It may not otherwise revise or rewrite the covenant."), *rev. denied*, 454 S.E.2d 251 (N.C. 1995).

[74] *See* Restatement of Emp't Law § 8.08.

[75] *See, e.g.*, AssuredPartners, Inc. v. Schmitt, 44 N.E.3d 463, 477 (Ill. App. Ct. 2015) ("[W]e find the deficiencies here too great to permit modification.").

[76] *See supra* note 61.

[77] *See supra* notes 69–72.

[78] *See* RESTATEMENT OF EMP'T LAW § 8.08 ("Lack of a reasonable and good-faith basis for believing a covenant was enforceable may be manifested by its gross overbreadth alone.").

[79] *See supra* notes 62–68.

geographical limitation upon the duty.[80] Because unenforceable covenants are covenants not to compete, in substance, the nonuniform USTA amendments do not apply to them.[81]

III. <u>Covenants That Can Be Enforced by a Limited Injuntion Restraining Direct Competition</u>

A. The Inevitable Disclosure Doctrine

The landmark case, *PepsiCo v. Redmond*,[82] illustrates an advantage that an employer can derive from an enforceable covenant not to disclose and not to use. In 1994, PepsiCo and Quaker Oats were direct competitors with respect to sports drinks and new age drinks. Quaker's Gatorade and Snapple brands dominated, but PepsiCo was striving to catch up. William Redmond, Jr. was the General Manager of PepsiCo's California business unit. Like other high-level PepsiCo employees, Redmond signed a confidentiality covenant providing in part that he:

> [Would] not disclose at any time, to anyone other than officers or employees of [PepsiCo], or make use of, confidential information relating to the business of [PepsiCo] . . . obtained while in the employ of [PepsiCo], which shall not be generally known or available to the public or recognized as standard practices.[83]

Under the tests discussed above, the covenant in Redmond's contract was not, in substance, a covenant not to compete.[84] Moreover, PepsiCo identified confidential information by legending

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[80] GA. CODE ANN. § 10-1-767(b)(1) (2018); 765 ILL. COMP. STAT. ANN. § 1065 8(b)(1) (LexisNexis 2018); TENN. CODE ANN. § 47-25-1708(b)(1) (2018). The South Carolina version is worded differently but the substance is the same. *See* S.C. CODE ANN. § 39-8-30(D) (2018) ("A contractual duty not to disclose or divulge a trade secret, to maintain the secrecy of a trade secret, or to limit the use of a trade secret must not be considered void or unenforceable or against public policy for lack of a durational or geographical limitation.").

[81] *See, e.g.*, Fay v. Total Quality Logistics, LLC, 799 S.E.2d 318, 323 (S.C. Ct. App. 2017) ("Because the nondisclosure provisions had the effect of a convent not to compete, they required a reasonable time restriction like any other noncompete agreement."); *see also* Serv. Ctrs. of Chicago, Inc. v. Minogue, 535 N.E.2d 1132 (Ill. App. Ct. 1989) (invalidating a covenant not to disclose and not to use after the enactment of the UTSA in Illinois without mentioning the Illinois non-uniform amendment).

[82] 54 F.3d 1262 (7th Cir. 1995).

[83] *Id.* at 1264.

[84] *See supra* notes 56–72. The *PepsiCo* covenant did not state that everything learned while employed by PepsiCo was either confidential information or a trade secret, did not shift the burden of proof to a former employee or elaborate situations in which disclosure or use was prohibited, and was supported by employer practices that both identified the protected information and safeguarded its confidentiality. The opinion accompanying the permanent injunction in *PepsiCo* noted that a nonuniform to the Illinois enactment of the UTSA provided that a contract not to disclose and not to use a trade secret is not required to have a limited duration. PepsiCo v. Redmond, No. 94 C 6838, 1996 WL 3965 at *26 (N.D. Ill. Jan. 2, 1996) (Illinois enactment).

its 1995 Strategic and Annual Operating Plans "Private and Confidential-Do Not Reproduce" and restricting access to high-level managers.[85] Shortly after PepsiCo shared its plans with Redmond, he accepted an offer to become Quaker's Vice President-Field Operations for Gatorade.

Six days after Redmond informed PepsiCo that he had accepted Quaker's offer, PepsiCo filed suit for an injunction against Redmond for assuming the Quaker position. PepsiCo argued that in his new role, Redmond would inevitably disclose PepsiCo's secret 1995 plans for competing with Quaker.[86]

On December 15, 1994, the federal district judge hearing the case issued a preliminary injunction restraining threatened trade secret misappropriation under the Illinois enactment of the UTSA. Redmond was enjoined from taking the Quaker position until after May 1995, and indefinitely enjoined from disclosing PepsiCo's trade secrets and confidential information to Quaker.[87] Further, Quaker was indefinitely enjoined from seeking and acquiring PepsiCo's trade secrets and confidential information.[88] A Seventh Circuit panel affirmed the preliminary injunction, emphasizing that Redmond's duties at Quaker would involve making decisions relevant to PepsiCo's competitive plans. The panel echoed the district judge's concern that both Redmond's initially concealing his acceptance of Quaker's offer and the conflict between Redmond's description of his duties at Quaker and Quaker's more limited description of those duties raised concern about whether either Redmond or Quaker would respect Redmond's contractual obligation of confidentiality to PepsiCo.[89]

On January 2, 1996, the trial judge issued a permanent injunction with respect to the terms of the preliminary injunction that had not expired.[90] Among the trial judge's findings was that PepsiCo was not estopped by its failure to have Redmond sign a covenant not to compete from obtaining injunctive relief precluding Redmond from assuming duties at Quaker for a limited period in order to prevent the threatened breach of Redmond's enforceable covenant not to disclose and not to use. A careful analysis of the fairness of enjoining a former employee that has not signed an enforceable covenant not to compete from competing for a limited period concurs that an enforceable covenant not to disclose and not to use can justify a limited injunction to refrain from competition.[91]

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[85] *PepsiCo*, 54 F.3d at 1265–66.
[86] *Id.*
[87] *Id.* at 1265–67.
[88] *See PepsiCo*, 1996 WL 3965 at *1.
[89] *PepsiCo*, 54 F.3d at 1269–72.
[90] *PepsiCo*, 1996 WL 3965.
[91] Rowe, *supra* note 14, at 207–10.

B. The Federal Defend Trade Secrets Act Treatment of Inevitable Disclosure

The *PepsiCo* "inevitable disclosure" theory of threatened misappropriation is controversial. Some states that have enacted the UTSA have rejected the theory,[92] and the federal DTSA limits it.

A provision of DTSA § 1836 dealing with injunctive relief rejects the *PepsiCo* inevitable disclosure theory as a justification for enjoining a former employee from taking a position with a competitor:

> In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may--
> (A) grant an injunction…provided the order does not. . .
> (I) prevent a person from entering an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows. . . .[93]

During Senate consideration of the DTSA, California Senator Feinstein explained that this language was intended to safeguard employee mobility protected by state law.[94] Senator Feinstein added: "[T]he bill bars an injunction 'to prevent a person from entering into an

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[92] *See, e.g.*, Whyte v. Schlage Lock Co., 101 Cal. App. 4th 1443, 1461–63 (Cal. Ct. App. 2002) ("The inevitable disclosure doctrine permits an employer to enjoin the former employee without proof of the employee's actual or threatened use of trade secrets based upon an inference (based in turn upon circumstantial evidence) that the employee inevitably will use his or her knowledge of those trade secrets in the new employment. The result is not merely an injunction against the use of trade secrets, but an injunction restricting employment. . . . [T]he inevitable disclosure doctrine 'in effect convert[s] the confidentiality agreement into a covenant [not to compete].'" (quoting PSC, Inc. v. Reiss, 111 F. Supp. 2d 252, 257 (W.D.N.Y. 2000)). *But see* LeJeune v. Coin Acceptors, Inc., 381 Md. 288, 322 (Md. 2004) (reversing a preliminary injunction based upon the inevitable disclosure theory of threatened misappropriation limiting areas in which former employee who had signed neither a covenant not to compete nor a covenant not to disclose and not to use could work for the new employer that was a direct competitor of the former employer). In Bimbo Bakeries USA, Inc. v. Botticella the Third Circuit affirmed, under Pennsylvania law, a preliminary injunction issued on February 9, 2010, restraining a former employee from commencing work for a competitor until a final determination in the trial on the merits scheduled to begin on April 12, 2010. 613 F.3d 102, 108–18 (3d Cir. 2010). The appeals court stressed that threatened misappropriation by the former employee who had signed a confidentiality agreement was likely, and it was irrelevant that the trial court had not found that threatened misappropriation was inevitable. *Id.*

[93] 18 U.S.C. § 1836(b)(3)(A)(i)(I) (2016) & Supp. IV (2017).

[94] *See* 162 CONG. REC. S1636 (daily ed. Apr. 4, 2016) (remarks of Senator Feinstein) ("Some States, including California, have strong public policies or laws in favor of employee mobility. . . . When this bill came before the Judiciary Committee, there was a serious concern that a Federal law without similar limits would override the law in those States. . . . To prevent this, the bill now includes language to preserve the law in California and elsewhere.").

employment relationship,' period."[95] The Senate and House Judiciary Committee Reports on the DTSA echo this theme.[96]

This limitation upon DTSA injunctive relief has been explored in few judicial decisions. However, two decisions in *T&S Brass & Bronze Works, Inc. v. Slanina* are of note. One unsurprisingly upheld a consent injunction that restrained the defendants from accepting employment in the food disposal industry for approximately nine months,[97] the parties can settle a case upon the terms of their choosing. The other decision suggests that, based upon the hearing record, an injunction can prohibit a defendant from future employment by specified competitors of a former employer and also require a defendant to obtain court approval for future employment in the former employer's industry.[98]

The second decision suggests that additional factors, such as the bad faith of the former employee and new employer, could result in the *PepsiCo* facts being decided the same way under the DTSA.

This DTSA provision does not preempt state law.[99] Both the Senate and the House Judiciary Committee DTSA Reports state:

> Section (3)(A)(i)(1)(I) reinforces the importance of employment mobility and contains some limitations upon injunctive relief that may be ordered. However, if a State's trade secrets law authorizes additional remedies, those State-law remedies will still be available. Some courts have found, based upon the information possessed by the employee alone, that an injunction may issue to enjoin a former employee from working in a job that would inevitably result in the improper use of trade secrets….
> [T]he remedies in Section 3(A)(i)(1)(I) are intended to coexist with, and not to preempt, influence, or modify applicable State law governing when an injunction should issue in a trade secret misappropriation matter. [100]

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[95] Id.

[96] Both reports state:

> Provided an order does not prevent a person from entering into an employment relationship or otherwise conflict with applicable State laws prohibiting restraints on trade, a court may grant an injunction to prevent any actual or threatened misappropriation.

H.R. REP. NO. 114-529, at 12 (2016); S. REP. NO. 114-220, at 8 (2016).

[97] T&S Brass & Bronze Works, Inc. v. Slanina, No. 6:16-cv-03687-MGL, 2018 WL 1393781 at *1–2 (D.S.C. Mar. 20, 2018).

[98] *See* T&S Brass & Bronze Works, Inc. v. Slanina, No. 6:16-03687-MGL, 2017 WL 1734362 at *13 (D.S.C. May 4, 2017) (rejecting Defendants' objections to injunctive relief recommended by a magistrate judge).

[99] *See* 18 U.S.C § 1838 (2016) & Supp. IV (2017) (identifying only the DTSA whistleblower immunity provisions as preemptive). For discussion of the whistleblower provisions refer to *supra* notes 36–37.

[100] S. REP. NO. 114-220, at 9; H.R. REP. NO. 114-529, at 12-13.

The DTSA also subordinates its injunctive provisions to state limitations upon the enforceability of employment covenants. A DTSA injunction cannot restrain a former employee from competition that cannot also be prohibited by an employment covenant under the applicable state law.[101]

State regulation of employment covenants accordingly was called to the attention of Congress during its consideration of the DTSA. Moreover, Congress both protected state regulation of employment covenants from preemption in DTSA § 1838, the federal equivalent of the UTSA Contract Exception, and subordinated the DTSA injunctive provisions to the applicable state law's tolerance for enforceable employment covenants.[102]

C. The Restatement of Employment Law Treatment of Inevitable Disclosure

The 2015 Restatement of Employment Law endorses the DTSA view that mere knowledge possessed by a former employee does not justify an injunction against assuming a comparable position with a direct competitor. Furthermore, unless the former employee and/or the hiring competitor have demonstrated bad faith, the Restatement of Employment Law indicates that the only condition upon employment that should be imposed is an injunction against unauthorized disclosure and use of trade secrets and other confidential information.[103]

In sum, under the Restatement of Employment Law and arguably also under the DTSA, because the *PepsiCo* trial judge found that both Redmond and Quaker could not be trusted to honor Redmond's covenant not to disclose and not to use, an injunction like that in *PepsiCo* could be issued. On the other hand, if neither the former employee's nor the direct competitor's good faith is questionable, the former employee cannot be enjoined from working for the direct competitor and the competitor cannot be enjoined from hiring the former employee. An injunction should require compliance with the former employee's covenant not to disclose and not to use, plus any orders to refrain from work on particular subjects that are justified by the hearing record.

IV. <u>Conclusion</u>

In order to have the general enforceability that Mr. Jager posits, a covenant not to disclose and not to use trade secrets and confidential information signed soon after employment begins must be made enforceable by either bargained for consideration or an employee's duty of loyalty. Covenants signed a substantial time after initial employment must be made enforceable by either new consideration in a significant number of states or an employee's duty of loyalty.

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[101] 18 U.S.C. § 1836(b)(3)(A)(i)(II) (2016) & Supp. V (2017).

[102] *See supra* notes 25 & 101.

[103] RESTATEMENT OF EMP'T LAW § 8.05(b) cmt. b, illus. 1 & 2 (AM. LAW. INST. 2014).

The covenant should use conventional definitions of “trade secret” and “confidential information,” should not detail when use is unauthorized, should not alter materially the employer’s burden of proving breach, and should be supported by employer practices that both identify and safeguard the confidentiality of the protected information. To the extent that a covenant does not satisfy these requirements, the employer has jeopardized both the enforceability of the covenant, and the employer’s ability to base an injunction limiting future competition upon the covenant.