

Recent Updates and Practical Advice About Trade Secrets, Non-Compete Agreements and Non-Solicitation Agreements for Employment and Business Attorneys in Utah

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NON-COMPETE AND NON-SOLICITATION AGREEMENTS

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Drafting/Enforcing Non-Compete Agreements

- The law regarding the enforceability of non-compete agreements varies significantly from one state to another, so it is imperative that you consult the law of the particular jurisdiction at issue
- If you have a client doing business in multiple states, you're going to need to modify the client's non-compete agreements accordingly



Drafting/Enforcing Non-Compete Agreements

"Restrictive covenants are generally upheld by the courts where they are necessary for the protection of the business for the benefit of which the covenant was made and ***no greater restraint is imposed than is reasonably necessary to secure such protection.***" *Allen v. Rose Park Pharmacy*, 237 P.2d 823, 826 (Utah 1951) (emphasis added).



Non-compete Agreements: The Basics

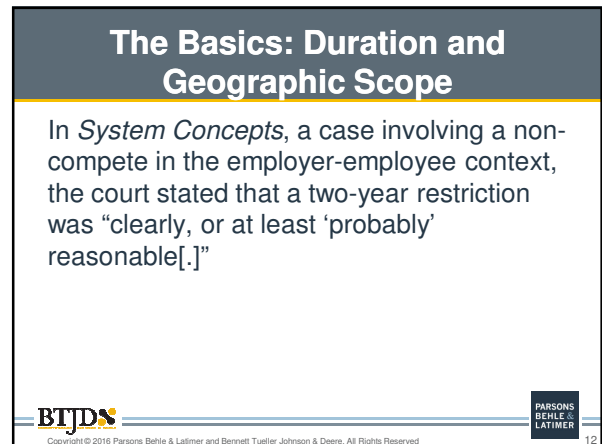
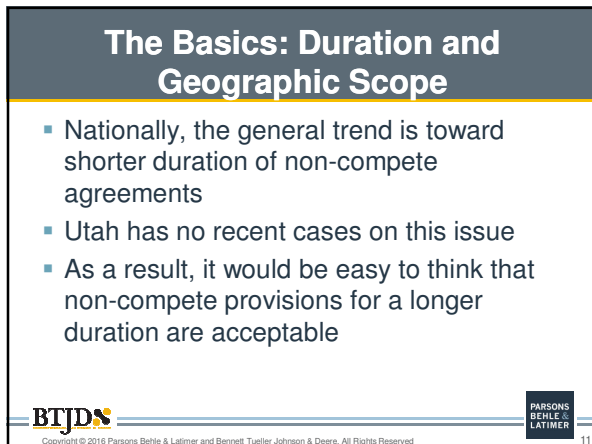
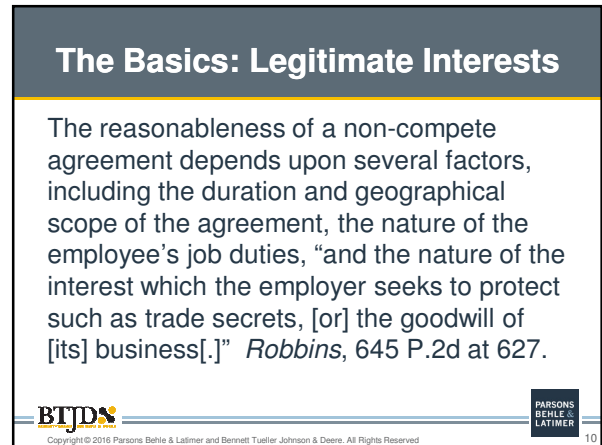
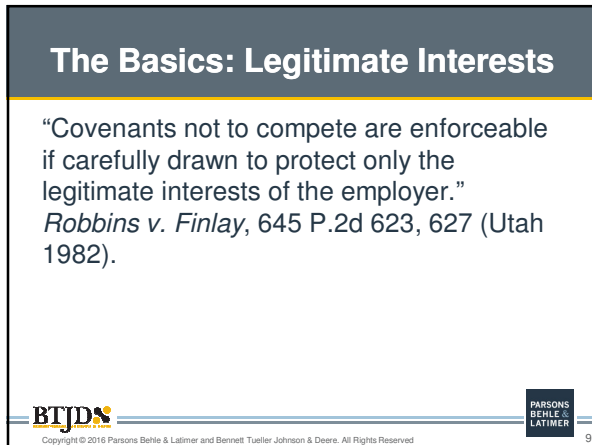
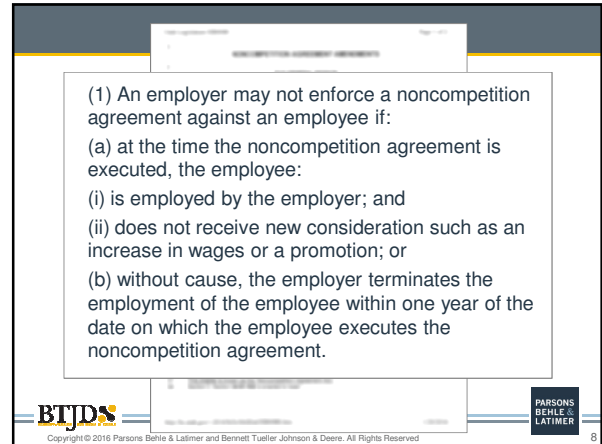
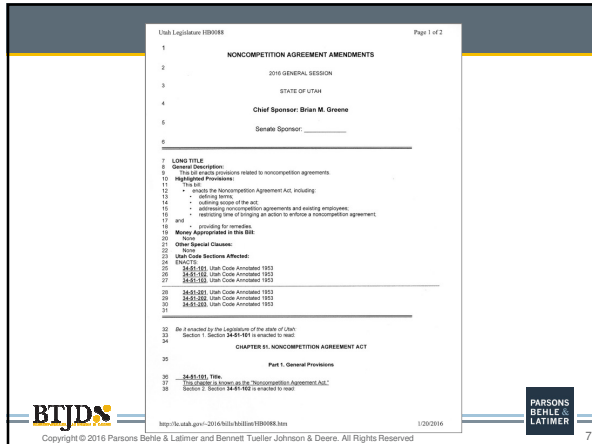
- Consideration
- No bad faith in negotiations
- Necessary to protect some legitimate interest
- Reasonable in time and space restrictions
- Services are special, unique or extraordinary



The Basics: Consideration

- Under Utah law, continued employment, in and of itself, may be sufficient consideration to support a non-compete agreement. *See System Concepts, Inc. v. Dixon*, 669 P.2d 421, 426-27 (Utah 1983)
- Be careful -- this is not true in many jurisdictions





The Basics: Duration and Geographic Scope

In another older Utah case, the court considered the limited geographical scope of the non-compete (two-mile radius) in determining that a five-year duration was reasonable (*See Allen v. Rose Park Pharmacy*, 237 P.2d 823 (Utah 1951))



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The Basics: Duration and Geographic Scope

Reasonableness of the geographical area covered by the covenant must be determined on a case-by-case basis, and hinges largely on the location and nature of the employer's customers, and the area within which the specific employee worked. *See System Concepts*, 669 P.2d at 427.



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The Big Question

Do non-compete agreements work or are they a waste of time (and money)?



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Lawyer-like Answer

- As always, it depends
- Utah law is generally favorable to the enforcement of non-compete agreements
- But, these cases are very fact-specific and are decided on a case-by-case basis
- Some judges are prejudiced against the enforcement of non-compete agreements, particularly if it would result in the loss of a person's job, and so the "luck of the draw" can be very important



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Non-Solicitation Agreements vs. Non-Compete Agreements

- Generally, main goal is to protect company's customers or clients from being stolen away
- Non-solicitation agreements are oftentimes adequate to achieve goal
- Non-solicitation agreements are less draconian than non-compete agreements



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Non-Solicitation Agreements vs. Non-Compete Agreements

As a result, courts are generally less reticent about enforcing non-solicitation provisions than they are about enforcing general non-compete provisions



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Non-Solicitation Provisions Should Be Carefully Drafted

- Again, main goal is generally to protect company's customers or clients from being stolen away
- Agreements merely **not to solicit** are oftentimes not adequate to achieve this goal
- Language needs to go beyond *soliciting*



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Non-Solicitation Provisions Should Be Carefully Drafted

Slicex, Inc. v. Aeroflex Colorado Springs, Inc., 2006 U.S. Dist. LEXIS 51000, 2006 WL 2088282 (D. Utah July 25, 2006) (non-solicitation provision that prohibits solicitation of employees requires affirmative action by the defendant, and where the employee initiates contact, no violation occurs; court cited to definition of "solicit" in *Black's Law Dictionary* as a basis for granting defendant's motion for JMOL).



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Non-Solicitation Provisions Should Be Carefully Drafted

See also *Waldeck v. Curtis 1000 Inc.*, 21 IER Cases 860, 862 (Ga. App. 2003) ("In recent years, the law has become quite clear: solicitation requires some type of affirmative action; therefore, a non-solicitation provision may not contain a bar on the acceptance of business from unsolicited clients."); *Mona Electric Corp. v. Truland Service Corp.*, 193 F.Supp.2d 874, 876-77 (E.D. Va. 2002) (holding that former employee did not violate non-solicitation provision by responding to former customers' requests for bids).



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Non-Solicitation Provisions Should Be Carefully Drafted

- Examples of additional language:
 - Induce
 - Encourage
 - Call upon
 - Communicate with
 - Divert
 - Interfere with
 - Sell to



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Non-Solicitation Provisions Should Be Carefully Drafted

Or any attempt to do any of the foregoing



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Other Drafting Considerations

- Beware of using form agreements – one size does not fit all
 - Different categories of employees may very well need different agreements – *e.g.*, enforceable agreement restricting activities of a sales employee might not be enforceable against a non-sales employee



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Other Drafting Considerations

- To increase enforceability, it is preferable to limit the non-solicitation provision to customers or clients that the employee actually dealt with
- Directly or indirectly
- For his/her own benefit or for the benefit of any other person or entity
- Choice-of-law provision



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Other Drafting Considerations

Employee acknowledges and agrees that the restrictions set forth in this section are reasonable under the circumstances and represent the least restriction on Employee's future employment and ability to earn a living that are consistent with the protection of Company's goodwill and Confidential Information, and that these restrictions will not prevent Employee from earning a livelihood without violating the terms of this Agreement.



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Other Drafting Considerations

- Acknowledgement that services of employee are special, unique and extraordinary (*Robbins*)
- Provision for extending duration of non-compete period during any period of breach (*i.e.*, tolling provision)?
- Non-compete that can be enforced through unilateral action by employer?



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Other Drafting Considerations

- Blue-penciling provision
- Severability clause
- Acknowledgement by employee that breach would cause irreparable harm, and that the damages resulting from breach would be extremely difficult to calculate
- Attorneys' fees provision?



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TRADE SECRETS

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What is a Trade Secret?

Information that is Valuable and Secret.

Information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(a) derives **independent economic value**, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) is the subject of efforts that are reasonable under the circumstances to maintain its **secrecy**.

Utah Code Ann. § 13-24-2 (West)



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Trade Secret or Not?

- Customer List
- Quickbooks File
- Customer Medical Records
- Manufacturing Process
- Labor and Equipment Rates
- Engineering Drawings
- Business Plan



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General vs. Special Knowledge

“Upon termination of his employment, an employee has the prerogative to use his general knowledge, experience, memory and skill, however, gained, provided he does not use, disclose, or impinge upon any of the secret processes or business secrets of his former employer.”

Microbiological Research Corp. v. Muna, 625 P.2d 690, 697 (Utah 1981)



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Fact Intensive Inquiry

- (1) Is the information known outside of the business?
- (2) Is the information known by employees and others involved in the business?
- (3) Has the business taken measures to guard the secrecy of the information?
- (4) Is the information valuable to the business and its competitors?
- (5) What amount of effort or money has the business expended in developing the information?
- (6) How easy or hard would it be for others to acquire or duplicate the information?

USA Power, LLC v. PacifiCorp, 2010 UT 31, ¶ 45, 235 P.3d 749, 760



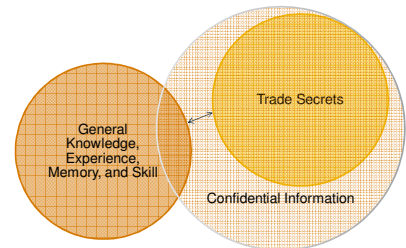
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Trade Secret Epistemology

- Customer List
- .QBB File
- Medical Records
- Mfg. Process
- Pricing
- Eng. Drawing



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Hypothetical

Employee (Pete) leaves employer (EmpCo.). Pursuant to EmpCo.'s policy, Pete turned in his computer. Upon inspection of the computer, EmpCo. discovers a folder named, "EmpCo." The EmpCo. folder is in a Dropbox folder. The EmpCo. folder is still synced with Pete's cloud Dropbox account, as well as his personal computer. In the EmpCo. folder are several files, including: 1) a customer list, 2) EmpCo. pricing information, 3) an EmpCo. .QBB backup file, and 4) documents showing the manufacturing process for an EmpCo. product.



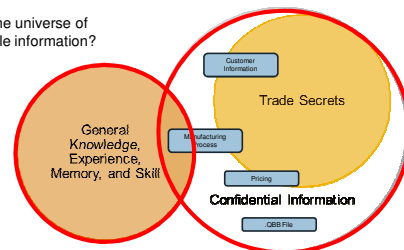
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Pete is Bound by Non-Compete and Confidentiality Clause

What is the universe of protectable information?



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Pete is Bound by Confidentiality Clause

What is the universe of protectable information?

General Knowledge, Experience, Memory, and Skill
 Trade Secrets
 Confidential Information
 Customer Information
 Manufacturing Process
 Pricing
 QBR File

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Pete is Not Bound by Contract

What is the universe of protectable information?

General Knowledge, Experience, Memory, and Skill
 Trade Secrets
 Confidential Information
 Customer Information
 Manufacturing Process
 Pricing
 QBR File

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Misappropriation

- Improper Acquisition
- Improper Disclosure

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Damages

- Lost Profits as a result of misappropriation
- Unjust Enrichment as a result of misappropriation
- Reasonable Royalty

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Preemption

Can EmpCo. protect information in green by asserting other tort claims?

General Knowledge, Experience, Memory, and Skill
 Trade Secrets
 Confidential Information
 Customer Information
 Manufacturing Process
 Pricing
 QBR File

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Preemption

- the UTSA preempts claims based on the unauthorized use of information, irrespective of whether that information meets the statutory definition of a trade secret
- a claim is preempted to the extent that it is based on factual allegations supporting a misappropriation of trade secrets or otherwise confidential information
- contract claims are not preempted

CDC Restoration & Const., LC v. Tradesmen Contractors, LLC, 2012 UT App 60, ¶ 48, 274 P.3d 317, 331

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Trade Secrets Summary

- Whether information is a trade secret can be a fact intensive inquiry.
- Businesses can benefit by using contracts that clearly define trade secrets and confidential information.
- Businesses can benefit by using contracts that contain (enforceable) non-competition and confidentiality provisions.
- If a business has not used a contract to protect its information, it may rely on the UTSA to protect its trade secrets (but not information that does not rise to level of a trade secret), but usually at a significant cost.



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Thank You

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