What Every Multi-National Corporation Needs to Know About Trade Secrets

November 8, 2023

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Trade Secret Committee

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Corporate Committee

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Introductions

Moderator: Kevin Ecker, Sr. IP Counsel, Koninklijke Philips N.V.

- Laura Hidalgo, Managing Counsel-Latin America, Merck
- Robert Isackson, Partner, Leason Ellis LLP
- Adam P. Samansky, Member, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
- Ksenia Takhistova, Chief Legal Officer, LCM Biosensor Technologies, LLC

General Outline

1. Introductions
2. Common Elements of a Trade Secret
3. Extraterritorial Reach of Trade Secrets
4. FTC proposed ban of Non-Compete clauses
5. Interplay between Non-compete Agreements and Trade Secret protection

Trade Secret Protection in Europe

The World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property ("TRIPS"), member countries must protect undisclosed information that:

> "is secret in the sense that it is not . . . generally known among or readily accessible to persons within the circles that normally deal with the kind of information at issue,"
>
> "has commercial value because it is secret", and
>
> "has been subject to reasonable steps under the circumstances . . . to keep it secret".
>
> cf. Art. 39 TRIPS Agreement, EU Directive Article 2(1)

The EU Directive does not have direct effect but must be adopted by all EU member states in their national laws

Trade Secret Protection in China

A trade secret is any technical information, operational information or commercial information which is

- not known to the public and
- has commercial value, and
- for which its obligee has adopted measures to ensure its confidentiality.

Article 9 of the Anti-Unfair Competition Law of the People's Republic of China (revised in 2019)

Trade Secret Protection in the U.S.

A trade secret can be any information that:

1. has independent economic value because it **is not generally known**;
2. is **not readily ascertainable** by proper means to others for whom it would be valuable; and
3. for which the owner took **reasonable steps to maintain secrecy**

Trade secret **misappropriation** occurs when **someone with access** to the trade secret **converts it** to their own use.

18 U.S.C. § 1832 – Theft of Trade Secrets

(a) Whoever, with intent to convert a trade secret, that is related to a product or service used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly—

1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;
2) without authorization copies, duplicates . . . replicates, transmits . . . communicates, or conveys such information;
3) receives . . . or possesses such information, knowing the same to have been stolen or . . . obtained . . . without authorization;
4) attempts to commit any offense . . . ; or;
5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3) . . . ,

shall . . . be fined under this title or imprisoned . . . or both.

18 U.S.C. § 1836 – Civil Proceedings

(a) The Attorney General may, in a civil action, obtain appropriate injunctive relief against any violation of this chapter.

(b) PRIVATE CIVIL ACTIONS.—

1) IN GENERAL.—An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.

18 U.S.C. § 1837 – Applicability to Conduct Outside the United States

This **chapter** also applies to conduct occurring outside the United States if—

(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or

(2) **an act in furtherance of the offense was committed in the United States**.

Trade Secret Enforcement Against Foreign Entities

- Dmarcian, Inc. v. Dmarcian Europe BV, 60 F.4th 119 (4th Cir. 2023)
- Amyndas Pharmaceuticals, S.A. v. Zealand Pharma A/S, 48 F.4th 18 (1st Cir. 2022)
- Atricure, Inc. v. Meng, 842 Fed. Appx. 974 (6th Cir. 2021)
- Inventus Power, Inc. v. Shenzen Ace Battery Co., Ltd., 2021 WL 1978342 (N.D. Ill. May 18, 2021)
- Philips v. Buan, 2023 WL 143200 (N.D. Ill. Jan. 10, 2023)
- Motorola v. Hytera, 436 F. Supp. 3d 1150, 1163 (N.D. Ill. 2020)
- The "Act" may be acquisition, disclosure, or use of the misappropriated trade secret
- The "[a]ct in furtherance of the offense was committed in the United States" may be committed by a third party.
  - See Personalize Inc. v. Magnetize Consultants Ltd., 437 F. Supp. 3d 860, 878 (W.D. Wash. 2020)
- Harm to a U.S. trade secret holder in U.S. may be insufficient if no alleged acts occurred in the U.S.
  - See Luminati Networks Ltd. v. BIScience Inc., No. 2:18-CV-00483-JRG, 2019 WL 2084426, at *10 (E.D. Tex. May 13, 2019)

FTC Non Compete Ban Proposal

- 16 CFR Part 910
- Published in the Federal Register on January 19, 2023
- ACTION: Notice of proposed rulemaking.
- SUMMARY: Pursuant to Sections 5 and 6(g) of the Federal Trade Commission Act, the Federal Trade Commission ("Commission") is proposing the Non-Compete Clause Rule. The proposed rule would, among other things, provide that it is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; to maintain with a worker a non-compete clause; or, under certain circumstances, to represent to a worker that the worker is subject to a non-compete clause.
- Rule supersedes any inconsistent state law, regulation, order, interpretation

FTC Non Compete Definitions (16 CFR 910.1)

- **<u>Non-compete clause</u> –**
  - **Prevents worker "from seeking or accepting employment" or "operating a business, after the conclusion of … employment"**
  - **Functional test – a clause however drafted is "a *de facto* non-compete clause" (and banned) when "it has the effect of prohibiting the worker from seeking or accepting employment … or operating a business after … employment …."**
    - **Non-disclosure agreement "written so broadly that it effectively precludes the worker from working in the same field"**
    - **Repayment of training costs agreement (under certain circumstances)**
    - **Other restrictive covenants (excessive liquidation clause)**
    - **Employee handbooks (under certain circumstances)**

Unfair Methods Of Competition (§ 910.2)

- **Acts to be prohibited:**

  "to enter into or attempt to enter into a non-compete with a worker"

  "maintain with a worker a non-compete clause"

  "represent to a worker that the worker is subject to a non-compete clause [without a] good faith [belief it is] enforceable"

- **Compliance requires**
  - Recission of existing non-compete clauses by compliance date
  - Notice of recission by individualized communication to current and former workers
- **No private right of action - only FTC can enforce this rule against Employers**

FTC Proposed Ban - Justification

- **NC's negatively affect competition in labor, products and services markets**
  - Reduce labor mobility – inhibit departure, foreclose access to talent
  - Reduce worker wages, both contracted and non-contracted (>$250B/yr)
  - Increase consumer prices (>$148B/yr in healthcare)
  - Do not improve product quality
  - Inhibit entrepreneurship
  - Decrease innovation (maybe) information flow and new entity formation
- **Exploitative and coercive (except senior executives) at signing and at departure**

California Non-Compete Provisions

- On September 1, 2023, California Governor Gavin Newsom signed SB 699 that furthers the state's protections for employee mobility and seeks to void out of state employee non-compete agreements.
  - Specifically, the new law provides that any contract that is void under California law is unenforceable regardless of where and when the employee signed the contract.
  - The law is effective **January 1, 2024**.
- On October 13, 2023, California Governor Gavin Newsom signed AB 1076 that amends Section 16600 of the Business and Professions Code is amended to read in part:
  - (a) Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.
  - (b) (1) This section shall be read broadly, in accordance with Edwards v. Arthur Andersen LLP (2008) 44 Cal.4th 937, to void the application of any noncompete agreement in an employment context, or any noncompete clause in an employment contract, no matter how narrowly tailored, that does not satisfy an exception in this chapter.

Suitability of Available Alternatives

- Trade secret laws – federal and state
- Non-disclosure agreements
  - trade secrets
  - Limited business confidential information
- Other
  - fixed duration employment contracts in exchange for training
  - better worker pay, promotion, working conditions, etc.

Suitability of Available Alternatives

- **Trade secrets and NDA's are not an adequate substitute for non-compete clauses**
  - **trade secret misuse can be hard to detect due to secret nature of the information**
  - **litigation is never favored, and damage will already be done**
  - **Increased litigation over trade secrets and NDAs at least in those states that had enforced non-competes**
- **Hidden compliance costs (est. $1-2 B (one time)) –**
  - **companies will need to bolster their trade secret and confidential information protection programs**
  - **cost to relocate – lost advantage of jurisdiction that enforced non-competes**
  - **increased patenting costs**
- **Empirical evidence that non-competes reduce trade secret misappropriation or loss of other confidential information**

Questions?

PUBLIC VERSION

UNITED STATES INTERNATIONAL TRADE COMMISSION

Washington, D.C.

In the Matter of **CERTAIN RAISED GARDEN BEDS AND COMPONENTS THEREOF**	**Inv. No. 337-TA-1334**

INITIAL DETERMINATION ON VIOLATION OF SECTION 337 AND RECOMMENDED DETERMINATION ON REMEDY AND BOND

Administrative Law Judge Doris Johnson Hines

(September 8, 2023)

Appearances:

For Complainant Vego Garden, Inc.: Bryan G. Harrison and Ziwen Zhu of LOCKE LORDE LLP, Atlanta, Georgia and Mark Hannemann of LOCKE LORDE LLP, New York, New York.

For Respondents Huizhou Green Giant Technology Co., Ltd. and Utopban Limited: Yu-Hao Yao and Tianyu Ju of GLACIER LAW LLP, Pasadena, California and Wei Wang of GLACIER LAW LLP, New York, New York.

For the Office of Unfair Import Investigations: Margaret D. Macdonald, David O. Lloyd, and Megan Wantland, U.S. International Trade Commission, Washington, DC.

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This is the final Initial Determination in the matter of *Certain Raised Garden Beds and Components Thereof*, Investigation No. 337-TA-1334 pursuant to the Notice of Investigation, 87 Fed. Reg. 63527 (Oct. 19, 2022), 19 C.F.R. §§ 210.10(b) and 210.42(a)(1)(i).

I. INTRODUCTION

A. Procedural History

Vego Garden, Inc. filed a Complaint on September 13, 2022, (EDIS Doc. ID 780063), and filed a letter supplementing its Complaint, (EDIS Doc. ID 780781), and an Amended Complaint on September 21, 2022, (EDIS Doc. ID 780825). The Amended Complaint alleges violations of section 337 based on the importation into the United States, and in the sale of, certain raised metal garden beds and components thereof due to misappropriation of trade secrets and unfair competition, the threat or effect of which is to destroy or substantially injure a domestic industry.

The Commission instituted Investigation No. 337-TA-1334 on October 13, 2022, to determine "whether there is a violation of subsection (a)(1)(A) of section 337 in the importation into the United States, or in the sale of, certain products identified in paragraph (2) by reason of misappropriation of trade secrets and unfair competition, the threat or effect of which is to destroy or substantially injure a domestic industry in the United States." 87 Fed. Reg. 63527.

The plain language description of the accused products in the Notice of Investigation defines the scope of the investigation. 19 C.F.R. § 210.10(b)(1). The accused products are described as "raised metal garden beds." 87 Fed. Reg. 63527.

The Notice of Investigation named the following respondents:

1. Huizhou Green Giant Technology Co., Ltd. (Green Giant);
2. Utopban International Trading Co., Ltd., d/b/a Vegega;
3. Utopban Limited (Utopban);

4. Forever Garden[1]; and
5. VegHerb, LLC, d/b/a Frame It All.

Id. Vego Garden's Amended Complaint named Kinghood International Logistics Inc. and Quanzhou Jieliya Trading Co., Ltd. as proposed respondents but the Commission determined not to institute an investigation as to either of those entities. Commission Letter (Oct. 13, 2022) (EDIS Doc. ID 782236). The Office of Unfair Import Investigations is also a party to this investigation. 87 Fed. Reg. 63527.

The presiding Chief Administrative Law Judge set the target date for this investigation at fourteen months. Order No. 4 (Nov. 2, 2022) (EDIS Doc. ID 783633). I extended the target date three weeks, to January 8, 2024, making this initial determination due on September 8, 2023. Order No. 31 (Aug. 16, 2023) (EDIS Doc. ID 802501).

The investigation was terminated as to respondent Utopban International Trading Co., Ltd. based on withdrawal of the Amended Complaint. Order No. 9 (Jan. 30, 2023) (EDIS Doc. ID 788929), *unreviewed by*, Comm'n Notice (Feb. 27, 2023) (EDIS Doc. ID 791164). The investigation was terminated as to respondents Forever Garden and VegHerb based on settlement agreements. Order No. 11 (Feb. 23, 2023) (VegHerb) (EDIS Doc. ID 790964) and Order No. 12 (Feb. 23, 2023) (Forever Garden) (EDIS Doc. ID 790965), both *unreviewed by*, Comm'n Notice (Mar. 23, 2023) (EDIS Doc. ID 793043). Respondents Green Giant and Utopban remain in the investigation.

[1] The Chief Administrative Law Judge issued an Initial Determination granting Vego Garden's motion to amend the Complaint and Notice of Investigation to correct the name of originally-named respondent The Hydro Source, Inc., d/b/a Forever Garden Beds, to Forever Garden. Order No. 8 (EDIS Doc. ID 786303).

Green Giant filed a counterclaim under 19 U.S.C. § 1337(c) and 19 C.F.R. § 210.14(e), seeking, among other things, a declaratory judgment that Green Giant has not misappropriated any of Vego Garden's alleged trade secrets and confidential information, in violation of the Defend Trade Secrets Act, 18 U.S.C. § 1836. Counterclaim, ¶¶ 46–54 (EDIS Doc. ID 786929). As required by 19 C.F.R. § 210.14(e), Green Giant removed its counterclaim to district court and that action is currently pending in the United States District Court for the Southern District of Texas, Houston Division, Case No. 4:23-cv-311.

On February 27, 2023, the presiding Chief Administrative Law Judge issued a Notice reassigning this investigation to me. Notice to the Parties (Feb. 27, 2023) (EDIS Doc. ID 791315).

In accordance with Ground Rule 11.2, (Order No. 14) (EDIS Doc. ID 792150), the parties filed pre-hearing briefs. Complainant Pre-Hearing Br. (EDIS Doc. ID 795228); Respondents Pre-Hearing Br. (EDIS Doc. ID 795236); and Staff Pre-Hearing Br. (EDIS Doc. ID 796340). The evidentiary hearing was held May 22–25, 2023. Thereafter, the parties filed post-hearing briefs. Complainant Post-Hearing Br. (EDIS Doc. ID 797960); Respondents Post-Hearing Br. (EDIS Doc. ID 797959); Staff Post-Hearing Br. (EDIS Doc. ID 798780); Complainant Post-Hearing Resp. Br. (EDIS Doc. ID 799091); Respondents Post-Hearing Resp. Br. (EDIS Doc. ID 799026); and Staff Post-Hearing Resp. Br. (EDIS Doc. ID 799331).

B. The Private Parties

1. Complainant

Vego Garden is a corporation organized and existing under the laws of the State of Delaware, with its principal place of business at 1521 Greens Rd. #100, Houston, Texas, 77032. Amended Complaint, ¶ 2.1. Vego Garden was formally founded at the end of 2020 for the purpose of providing raised metal garden products to the U.S. market. *Id.*; Tr. (Xiong) at 25:18–26:14.

2. Respondents

Of the five respondents named in the Notice of Investigation, one was terminated by withdrawal of the Complaint, two were terminated based on settlement agreements and two, Green Giant and Utopban, proceeded to the evidentiary hearing.

a) Green Giant

Green Giant was founded in July 2021 and manufactures the accused raised metal garden bed products and accessories. Tr. (Lu) at 334:19–335:2; and Tr. (Li) at 329:12–15. Green Giant is based in China and has its principal place of business at Xiao Ao Tou, Hong Tian Management Area, Xin Yu Zhen, Hui Yang District, Hui Zhou, Guangdong, China. Amended Complaint, ¶ 3.1; and Green Giant Response to Amended Complaint, ¶ 3.1 (EDIS Doc. ID 785631). Though Green Giant does not sell directly into the United States, as of its Response to the Amended Complaint, the United States market represented around 85% of its business operations. Respondents Post-Hearing Br. at 4; and Ex. A to Green Giant Response to Amended Complaint, ¶ d (EDIS Doc. ID 785906).

b) Utopban

Utopban Limited is a limited company organized and existing under the laws of Hong Kong, with its principal place of business at Unit 2 22/F Richmond Comm. Bldg, 109 Argyle Street, Mongkok KL, Hong Kong 999077. Amended Complaint, ¶ 3.3; and Utopban Response to Amended Complaint, ¶ 3.3 (EDIS Doc. ID 785627). Utopban does business under the name "Vegega." Utopban Response to Amended Complaint, ¶ 3.2; *see also* Amended Complaint, ¶ 3.2 (identifying Vegega as having an office location at 2646 River Ave., Suite #A, Rosemead, CA 91770). Utopban's supplier of raised metal garden bed products is Green Giant. SX-0042.0005; Ex. A to Utopban Response to Amended Complaint, ¶ e (EDIS Doc. ID 785823); and Tr. (Li) at

329:8–15. As of its Response to the Amended Complaint, the U.S. market represented around 71% of Utopban's business operations. Ex. A to Utopban Response to Amended Complaint, ¶ d. More than 90% of Utopban's raised metal garden bed products are sold in the United States. Tr. (Li) at 325:21–25. In the year before filing its Response to the Amended Complaint, Utopban stated that it imported 5,350 raised metal garden bed products into the United States. Ex. A to Utopban Response to Amended Complaint, ¶ a.

C. Alleged Trade Secrets

Under the Procedural Schedule, Vego Garden was required to serve by December 5, 2022, a Preliminary Disclosure that, among other things, included an identification of "each alleged trade secret allegedly misappropriated . . . by each respondent." Order No. 6 (EDIS Doc. ID 784843); *see also* Complainant's Preliminary Disclosure (EDIS Doc. ID 793340-1969262).

Vego Garden has identified what it contends are three trade secrets:

> **1. Product Development Research Trade Secret**, *i.e.*, Vego's product development research relating to 8-inch raised garden bed configurations, an entirely new product line for consumers who could not afford Vego's traditional 17-inch product.
>
> **2. Product Materials Research Trade Secret**, *i.e.*, Vego's research and experimentation relating to the protective film used to protect the finish during manufacture and shipping of its raised metal garden bed products.
>
> **3. Product Manufacturing Trade Secret**, *i.e.*, Vego's design improvements to the machinery used to generate curves or bends in the wave-form pattern in panels used in Vego's raised garden bed configurations as a result of Vego's research and development efforts.

Complainant Post-Hearing Br. at 16–17; *see also id.* at 10–15; Amended Complaint, ¶¶ 5.1–5.5; Confidential Ex. 1 to Complaint (EDIS Doc. ID 779976), ¶¶ 12–18; and Complainant Pre-Hearing Br. at 7–9.

D. Alleged Unfair Competition

Vego Garden bases its unfair competition allegations on the Lanham Act, specifically on 15 U.S.C. § 1125(a), asserting that Utopban used photographs owned by Vego Garden to advertise Respondents' raised metal garden bed products. Complainant Pre-Hearing Br. at 21–22; *see also* Amended Complaint, ¶¶ 6.1–6.6. Vego Garden claims that Utopban's use of its photographs is false advertising under 15 U.S.C. § 1125(a)(1)(A). Complainant Pre-Hearing Br. at 21–26; *see also* Amended Complaint, ¶¶ 6.1–6.6.

Vego Garden previously asserted that Utopban committed the unfair act of reverse palming off, which it argued constituted false designation of origin under 15 U.S.C. § 1125(a)(1)(A). Complainant Pre-Hearing Br. at 21–26; *see also* Amended Complaint, ¶¶ 6.1–6.6. In its post-hearing response brief, Vego Garden withdrew its reverse palming off claim. Complainant Post-Hearing Resp. Br. at 3, n.1 ("Vego . . . agrees . . . to withdraw Vego's reverse palming off claim"); *see also* Staff Post-Hearing Resp. Br. at 13. Having withdrawn its reverse palming off claim, I do not address it here.

E. Products at Issue

1. Accused Products

The accused products are raised metal garden bed products and components manufactured by Green Giant in China, sold for importation by Green Giant, imported by Utopban (also called Vegega) and sold through on-line distributors and retailers. Tr. (Li) at 329:3–15 (Utopban sells its raised metal garden bed products in the United States under the brand name Vegega, all of which are manufactured by Green Giant); Tr. (Lu) at 334:25–335:2 (Green Giant manufactures raised metal garden bed products and accessories); CX-0500 (Lu Dep.) at 28:7–24[2] (Utopban investigated raised metal garden bed products customers in the U.S. would want); and CX-0019 (showing available Green Giant products with materials that "satisfy North American USDA regulations"). An example of an accused raised metal garden bed product is shown below:

CX-0019 at VEGO-ITC000153.

2. Domestic Industry Products

Vego Garden's domestic industry products are raised metal garden beds, an example of which is shown below.

[2] Although not highlighted in Exhibit CX-0500, this testimony was designated pursuant to Order No. 24 (EDIS Doc. ID 796880).

CX-0065; *see also* CX-0064; CX-0066; CX-0068; CX-0069; CX-0072; and CX-0074.

Vego Garden's raised metal garden bed products are manufactured in China. Tr. (Xiong) at 97:14–22. They come in various heights and colors. JX-0010 (spreadsheet of raised garden bed products and components available from Vego Garden); JX-0013C (spreadsheet of Vego Garden sales from January 1 to December 31, 2022)[3]; and CX-0038C (spreadsheet of Vego Garden sales from January 1 to February 28, 2023). Vego Garden's domestic industry products directly compete in the U.S. market with Respondents' accused products. Tr. (Xiong) at 42:10–14 (identifying Vegega as a competitor to Vego Garden); Tr. (Xiong) at 43:6–14 (identifying Green Giant

[3] JX-0011C was initially identified and relied on by the parties. It is identical to JX-0013C. In the exhibit list filed by the parties on September 5 (EDIS Doc. ID 803757), JX-0011C was withdrawn. References to that document in the parties' briefs and in the hearing transcript should be assumed to refer to JX-0013C.

customers as competitors in the United States); CX-0501[4] (Li Dep.) at 35:22–25 (identifying Vego Garden as selling the same products as Utopban).

II. JURISDICTION

A. Statutory Jurisdiction

Congress has directed that "[t]he Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative." 19 U.S.C. § 1337(b)(1). Section 337(a)(1)(A) declares unlawful, *inter alia*, "[u]nfair methods of competition and unfair acts in the importation of articles . . . the threat or effect of which is – (i) to destroy or substantially injure an industry in the United States . . . ." 19 U.S.C. § 1337(a)(1)(A). Such unfair methods of competition and unfair acts may include the importation of articles that incorporate misappropriated trade secrets. *Certain Rubber Resins and Processes for Mfg. Same,* Inv. No. 337-TA-849, Comm'n Op. at 9 (Feb. 26, 2014) (EDIS Doc. ID 528759) (*Rubber Resins*). They may also include the importation of articles that are falsely advertised under the Lanham Act, 15 U.S.C. § 1125(a)(1). *Certain Food Processing Equipment and Packaging Materials Thereof*, Inv. No. 337-TA-1161, Initial Determination at 14 (Feb. 18, 2020) (collecting cases) (EDIS Doc. ID 704184) (*Food Processing Equipment*), *unreviewed by*, Comm'n Notice (Apr. 3, 2020) (EDIS Doc. ID 707002). Pursuant to statute, therefore, the Commission has statutory authority to investigate complaints including allegations of trade secret misappropriation and false advertising with respect to articles imported into the United States.

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[4] Complainant's exhibit list indicates that CX-0501 was "admitted for limited purpose." (EDIS Doc. ID 803737). This is inaccurate. In Order No. 24, (EDIS Doc. ID 796727), I allowed the parties to designate deposition testimony of the opposing party's witnesses who would be testifying remotely. The designated testimony of Mr. Li was admitted for all purposes.

Respondents do not contest the statutory authority of the Commission to investigate Vego Garden's false advertising claim but do contest the authority of the Commission to investigate Vego Garden's trade secret misappropriation claim. Respondents Post-Hearing Br. at 6–7. Respondents assert that "the Commission has no jurisdiction over trade secret disputes that occurred in China." *Id*. at 7.

As to Respondents' allegation that the Commission lacks jurisdiction, the Supreme Court has held that the concept of "subject matter jurisdiction" does not apply to administrative agencies. *Certain Video Security Equip. & Sys., Related Software, Components Thereof, & Prods. Containing Same*, Inv. No. 337-TA-1281, Comm'n Op. at 9–10 (Apr. 19, 2023) (EDIS Doc. ID 794569), *citing City of Arlington, Tex. v. FCC*, 569 U.S. 290, 297 (2013). The question, therefore, is the Commission's statutory authority to act, which is "is authoritatively prescribed by Congress." *Id*. (internal quotations omitted).

Respondents contend that the "alleged trade secrets that are the basis of this Investigation are based exclusively in China – the alleged trade secrets were developed in China, the agreements being asserted are private contracts and nondisclosure agreements between Chinese companies, and the alleged unfair acts all occurred in China."[5] Respondents Post-Hearing Br. at 6–7. Respondents ignore, however, their alleged importation into the United States of raised metal garden bed products improperly incorporating Vego Garden's trade secrets.

[5] Respondents' contention that all relevant activity occurs in China is belied by Green Giant's allegations in its Counterclaim, which seeks a declaratory judgment that it has not misappropriated any of Vego Garden's trade secrets. *See* Counterclaim, ¶¶ 46–54. Green Giant asserts that venue is proper in Texas "because a substantial part of the events giving rise to the Counterclaim occurred in this District." Notice of Removal, ¶ 4 (EDIS Doc. ID 786930).

The unfair acts the Commission has statutory authority to investigate involve the importation into the United States of products incorporating misappropriated trade secrets. *TianRui Grp. Co. Ltd. v. Int'l Trade Comm'n*, 661 F.3d 1322, 1329–32 (Fed. Cir. 2011). In *TianRui*, the Federal Circuit considered and rejected the same argument Respondents make here, holding that "section 337 is expressly directed at unfair methods of competition and unfair acts 'in the importation of articles' into the United States" such that "the foreign 'unfair' activity [trade secret misappropriation] is relevant only to the extent that it results in the importation of goods into this country causing domestic injury." *Id*. at 1329.

Though Respondents cite *TianRui*, they do not attempt to distinguish its holding and do not address Vego Garden's allegations of importation with respect to the Commission's statutory authority to investigate the trade secret misappropriation claim. Respondents Post-Hearing Br. at 6–7. Respondents instead contend that "it is reasonable to conclude that the Commission lacks jurisdiction in this Investigation as the allegedly infringed rights exist under the laws of China." *Id*. at 7.[6] The Commission's statutory authority, however, is not circumscribed in the way Respondents urge. Instead, the Commission has statutory authority to investigate the alleged importation of goods incorporating misappropriated trade secrets causing injury to a domestic industry.

Vego Garden alleges that the Respondents' raised metal garden bed products, imported into the United States, include its misappropriated trade secrets, and have injured its domestic industry. Amended Complaint, ¶¶ 5.1–5.5 and Complainant Post-Hearing Br. at 21–32 and 43–45.

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[6] To the extent Respondents argue that a Chinese entity owns "the allegedly infringed rights," Vego Garden, a U.S. company, asserts that it owns the trade secrets allegedly misappropriated and owns the photographs underlying its false advertising claim. *See* sections VI.A and VIII.B, respectively.

As confirmed by the Federal Circuit in *TianRui*, I conclude that the Commission has statutory authority to investigate Vego Garden's trade secret misappropriation claim.

B. Personal Jurisdiction

By filing a complaint and participating in this investigation, Vego Garden consented to the personal jurisdiction of the Commission. *See Certain Toner Cartridges, Components Thereof, and Systems Containing Sam*e, Inv. No. 337-TA-1174, Initial Determination at 34–35 (July 23, 2020) (EDIS Doc. ID 716848), *unreviewed by*, Comm'n Notice (Sept. 8, 2020) (EDIS Doc. ID 719096). Respondents Green Giant and Utopban both appeared and participated in this investigation, thus submitting themselves to the personal jurisdiction of the Commission.

I therefore conclude that the Commission has personal jurisdiction over complainant Vego Garden and respondents Green Giant and Utopban. *See, e.g., Certain Strontium-Rubidium Radioisotope Infusion Systems, and Components Thereof Including Generators*, Inv. No. 337-TA-1110, Initial Determination at 9 (Aug. 1, 2019) (EDIS Doc. ID 685112), *unreviewed in pertinent part by*, Comm'n Notice (Sept. 30, 2019) (EDIS Doc. ID 689653).

C. *In Rem* Jurisdiction

The record evidence addressed in section IV demonstrates that the accused products have been imported into the United States. I therefore conclude that the Commission has *in rem* jurisdiction over the accused products in this investigation. *See Sealed Air Corp. v. Int'l Trade Comm'n*, 645 F.2d 976, 985–86 (C.C.P.A. 1981) (the Commission has jurisdiction over imported goods).

III. STANDING

A. Standing to Assert Trade Secret Misappropriation

The party that owns or exclusively licenses alleged trade secrets has standing to assert misappropriation at the Commission. 19 C.F.R. § 210.12(a)(7). *Rubber Resins*, Inv. No. 337-TA-849, Initial Determination at 44 (Jun. 17, 2013) (EDIS Doc. ID 516322) (to have standing, "the Commission Rules require the complainant own the trade secrets at issue or be the exclusive licensee"); *Certain Cast Steel Ry. Wheels, Certain Processes for Mfg. or Relating to Same & Certain Products Containing Same*, Inv. No. 337-TA-655, Initial Determination at 17 (Oct. 16, 2009) (EDIS Doc. ID 414899), *unreviewed by*, Comm'n Notice (Dec. 17, 2009) (EDIS Doc. ID 416143) (complainant "has established that it owns the trade secrets asserted in this investigation, and that it has standing"); *Certain Activity Tracking Devices, Systems, and Components Thereof,* Inv. No. 337-TA-963, Order No. 55, at 4 (Apr. 27, 2016) (EDIS Doc. ID 579771) (complainants had standing where "there is no dispute that Complainants have possession and title to the asserted trade secrets"). As discussed in section VI.A, I find that Vego Garden owns the alleged trade secrets. I therefore conclude that Vego Garden has standing to assert trade secret misappropriation.

B. Standing to Assert False Advertising

The Supreme Court considered "the appropriate analytical framework for determining a party's standing to maintain an action for false advertising under the Lanham Act" in *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 572 U.S. 118, 124 (2014). A plaintiff has a right to sue for false advertising under 15 U.S.C. § 1125(a) if they allege "an injury to a commercial interest in reputation or sales" and "economic or reputational injury flowing directly from the deception wrought by the defendant's advertising." *Id*. at 132 and 133.

Vego Garden alleges that it owns photographs forming the basis of its false advertising claim. Complainant Post-Hearing Br. at 35; *see also* CX-0064; CX-0065; CX-0066; CX-0068; CX-0069; CX-0072; and CX-0074. Respondents do not dispute that Vego Gardens owns the photographs. Tr. (Li) at 312:11–313:11. Vego Garden alleges injuries of lost revenue and damage to its business reputation because Utopban used its photographs to advertise Respondents' products, which "are injuries to precisely the sorts of commercial interests the [Lanham] Act protects." 572 U.S. at 137; Complainant Post-Hearing Br. at 44. I therefore conclude that Vego Garden has standing to assert false advertising under 15 U.S.C. § 1125(a)(1).

IV. IMPORTATION

Section 337 prohibits "[u]nfair methods of competition and unfair acts in the importation of articles . . . into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—[] to destroy or substantially injure an industry in the United States. . . ." 19 U.S.C. § 1337(a)(1)(A)(i). A single importation of an accused product is sufficient to satisfy the importation requirement of section 337. *Certain Trolley Wheel Assemblies*, Inv. No. 337-TA-161, USITC Pub. No. 1605, Comm'n Op. at 7–8 (Nov. 1984) (deeming the importation requirement satisfied by the importation of a single product of no commercial value) (EDIS Doc. ID 235418).

The evidence demonstrates that the accused raised metal garden beds are manufactured by Green Giant, sold for importation into the United States by Green Giant, and imported into and then sold in the United States by Utopban. Tr. (Lu) at 335:1–5 (Green Giant manufactures raised garden beds and accessories but does not import them directly into the United States); CX-0500 (Lu. Dep.) at 54:5–15 (Green Giant sells its raised garden bed products to Utopban, which resells them in the United States) and at 57:2–58:8 (testifying about sales summary identifying Green

Giant sales of raised garden be products to Vegega (Utopban)); JX-0044 (Green Giant sales summary); Tr. (Li) at 326:4–18 (Utopban is the importer of record for raised metal garden bed products imported into the United States) and 329:3–15 (Utopban imports raised metal garden bed products manufactured by Green Giant into the United States); CX-0081C (Utopban sales summary); CX-0501 (Li Dep.) at 25:10–12 and 26:5 (Utopban is the importer of record for raised metal garden bed products imported into the United States); and Exhibit A to Utopban Response to Complaint, ¶ a ("The quantity of Utopban Limited's accused products imported into the US in the year prior to filing this response on December 5, 2022, is 5350.").

Based on the record evidence, I conclude that the accused raised metal garden bed products have been imported into the United States.

V. WHETHER THERE ARE PROTECTABLE TRADE SECRETS

Section 337(a)(1)(A)(i) prohibits "[u]nfair methods of competition and unfair acts in the importation of articles . . . into the United States, or in the sale of such articles by the owner, importer, or consignee . . . ." 19 U.S.C. § 1337(a)(1)(A)(i). One unfair method of competition cognizable under Section 337(a)(1)(A) is misappropriation of trade secrets. *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 9.

Trade secret misappropriation is defined by the common law. *Id*. A single federal standard, rather than the law of a particular state, applies. *TianRui*, 661 F.3d at 1327. Sources for this federal standard include the Restatement of Unfair Competition, the Uniform Trade Secrets Act (UTSA), the Restatement of Torts, the Defend Trade Secrets Act of 2016 (18 U.S.C. §§ 1831-39), and federal common law. *Certain Bone Cements, Components Thereof, and Products Containing the Same*, Inv. No. 337-TA-1153, Comm'n Op. at 6 (Jan. 25, 2021) (EDIS Doc. ID 731649) (*Bone Cements*). The elements of trade secret misappropriation of are:

> (1) the existence of a process that is protectable as a trade secret (*e.g.*, that is (a) of economic value, (b) not generally known or readily ascertainable, and (c) that the complainant has taken reasonable precautions to maintain its secrecy);
>
> (2) the complainant is the owner of the trade secret;
>
> (3) the complainant disclosed the trade secret to respondent while in a confidential relationship or that the respondent wrongfully took the trade secret by unfair means; and
>
> (4) the respondent has used or disclosed the trade secret causing injury to the complainant.

Rubber Resins, Inv. No. 337-TA-849, Comm'n Op. at 10, *citing Certain Processes for the Manufacture of Skinless Sausage Casings & Resulting Prod.*, Inv. Nos. 337-TA-148/169, USITC Pub. No. 1624, Initial Determination at 244, *unreviewed in pertinent part* (Dec. 1984) (EDIS Doc. ID 235421) (*Sausage Casings*); UTSA, § 1(4).

The existence of a trade secret is a prerequisite for a trade secret misappropriation claim. *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 10, *citing Sausage Casings*, Initial Determination at 244. The complainant bears the burden of showing "the existence of a process that is protectable as a trade secret." *Id*. at 56–59. "The common law does not provide 'precise criteria for determining the existence of a trade secret,' but instead requires 'a comparative evaluation of all the relevant factors, including the value, secrecy, and definiteness of the information as well as the nature of the defendant's misconduct.'" *Certain Activity Tracking Devices, Sys., & Components Thereof*, Inv. No. 337-TA-963, Initial Determination at 18 (Aug. 23, 2016) (EDIS Doc. ID 591157), *quoting* Restatement (Third) of Unfair Competition § 39 cmt. d., *unreviewed by*, Comm'n Notice (Oct. 20, 2016) (EDIS Doc. ID 593177) (*Activity Trackers*). The applicable common law rule is found in the Restatement, which provides that "[a] person claiming rights in a trade secret bears the burden of defining the information for which protection is sought with sufficient definiteness to permit a court to apply the criteria for protection described in this Section [i.e., value and secrecy], and to determine the fact of an appropriation." Restatement § 39 cmt. d. A broad trade secret may nevertheless be protectable when "the details set forth in the [asserted trade secret] are sufficiently specific to warrant trade secret protection because they distinguish the trade secret from what was generally known in the industry." *See Certain Crawler Cranes and Components Thereof*, Inv. No. 337-TA-887, Comm'n Op. at 45–46 (May 6, 2015) (EDIS Doc. ID 556530) (*Crawler Cranes*).

The Commission looks to the following six factors—each of which relates to issues of value and/or secrecy—to determine whether a trade secret exists:

1. the extent to which the information is known outside of complainant's business;
2. the extent to which it is known by employees and others involved in complainant's business;
3. the extent of measures taken by complainant to guard the secrecy of the information;
4. the value of the information to complainant and to his competitors;
5. the amount of effort or money expended by complainant in developing the information; and
6. the ease or difficulty with which the information could be properly acquired or duplicated by others.

Sausage Casings, Inv. Nos. 337-TA-148/169, Initial Determination at 245–246, *citing* Restatement of Torts § 757, cmt. b. These factors are "instructive guidelines," not a six-pronged test. *See Crawler Cranes*, Inv. No. 337-TA-887, Initial Determination at 24 (Jul. 11, 2014) (EDIS Doc. ID 539295).

Considering the *Sausage Casings* factors, I first consider whether there are any protectable trade secrets.

A. Vego Garden's Identification of the Asserted Trade Secrets

Vego Garden asserts three trade secrets: (1) research and development of an 8-inch raised metal garden bed in various configurations, which it refers to as its product development research trade secret; (2) research and selection of the film used to protect its raised metal garden bed products during manufacture and transit, which it refers to as its product materials research trade secret; and (3) development and implementation of improvements to the manufacturing equipment used to bend corrugated metal and generate the corner panels of its raised metal garden beds, which it refers to as its product manufacturing trade secret. Complainant Post-Hearing Br. at 10–15.

Respondents argue that "Complainant has failed to even coherently define the information alleged to be a trade secret in this Investigation." Respondents Post-Hearing Br. at 7; and Respondents Post-Hearing Resp. Br. at 6. The Staff contends that Respondents waived this argument by failing to raise it in their pre-hearing brief. Staff Post-Hearing Br. at 12; *see also* Staff Post-Hearing Resp. Br. at 1. I agree that Respondents waived this issue because it was not raised in their pre-hearing brief. *See* Respondents Pre-Hearing Br. at 6–7; and Order No. 14 (Ground Rules) at 11.2.

Nonetheless, in belatedly contending that Vego Garden failed to identify the alleged trade secrets with specificity, Respondents cite multiple times to "*Kuryakyn* at 798–800," arguing that it supports Respondents' contention that Vego Garden's description of its alleged trade secrets "fails to identify which aspects are known to the trade and which are not." Respondents Post-Hearing Br. at 8–9. Respondents are presumably referencing *Kuryakyn Holdings, LLC v. Ciro LLC*, 242 F. Supp. 3d 789 (W.D. Wis. 2017). In granting summary judgment there, the district court stated that it could not determine whether the alleged trade secrets met the statutory requirements because the plaintiff "fail[ed] to pin down the purported trade secrets." 242 F. Supp.

3d at 799. In reaching that conclusion, the court noted the descriptions of the trade secrets such as, "information about [the] manufacturing skill, reliability, resources, capacity, technological knowledge, costs of manufacture, component costs, and expertise specific to the development and production of motorcycle parts and accessories," "[i]nformation about [its] development of a smartphone app for controlling colored lights applied to motorcycles," and the "concept and design" of its smartphone app. *Id*.

The trade secret descriptions here are far more specific than the general descriptions in *Kuryakyn* and allow "meaningful comparison of the putative trade secret information with information that is generally known and ascertainable in the relevant field or industry." *Activity Trackers*, Inv. No. 337-TA-963, Initial Determination at 17. I therefore agree with the Staff and Vego Garden that each of the alleged trade secrets was identified with the required specificity. *See* Staff Post-Hearing Br. at 11–12; Complainant Pre-Hearing Br. at 7–9 (EDIS Doc. ID 795228).

Respondents also argue that by relying on the testimony of Mr. Xiong, Vego Garden's founder and CEO, Tr. 24:25–25:2 and 98:12–13, Vego Garden has not met its burden of proof in establishing the existence of any trade secrets. Respondents Post-Hearing Resp. Br. at 1. As support for this proposition, Respondents quote that a "complainant . . . must come forward with reliable, probative, and substantial evidence." *Id*., *quoting Certain Trolley Wheel Assemblies*, Inv. No. 337-TA-161, Order No. 8, 1984 WL 273875 (Feb. 23, 1984). There, however, whether testimony was sufficient was not an issue. Instead, there the Administrative Law Judge granted in part a motion for sanctions after the respondents, which had not appeared in the investigation, failed to respond to discovery requests. *Id*. at *2. In response to an argument that no evidence supported a particular proposition, the Commission has recognized that "testimony is evidence." *Certain Child Carriers and Components Thereof*, Inv. No. 337-TA-1154, USITC Pub. No. 1154, Initial Determination at 67–68, *unreviewed in pertinent part by* Comm'n Notice (Feb. 2022) (EDIS Doc. ID 766202). The question, therefore, is whether, considering the record as a whole, Vego Garden has established the existence of trade secrets, including testimonial evidence.

B. Identification of the Involved Entities

Vego Garden does not manufacture its raised metal garden bed products and instead relies on a Chinese manufacturer, Shun Chuen, to manufacture its products. Tr. (Xiong) at 49:7–8. Mr. Yu is an engineer who was employed by Shun Chuen and was Vego Garden's point of contact at Shun Chuen. *See id.* at 49:10–12. Shun Chuen in turn relies on metal material supplied by Foshan Nahong, which produces metal coil used by Shun Chuen to manufacture Vego Garden's raised garden beds. *See id.* at 51:16–52:4. Mr. Lu, the founder and general manager of Green Giant, Tr. (Lu) 334:14–24, previously worked for Foshan Nahong. Counterclaim, ¶ 7. Vego Garden and Shun Chuen also worked with Foshan Baoshuo Intelligent Equipment Manufacturing Co., Ltd. (Baoshuo), which is a factory that made the bending machine Shun Chuen uses to manufacture Vego Garden's raised metal garden beds. Tr. (Xiong) at 205:8–15.[7]

C. The Asserted 8-Inch Product Development Trade Secret

Vego Garden's 8-inch product development trade secret consists of research and planning undertaken by it to develop and bring to market an 8-inch raised metal garden bed product line. Complainant Post-Hearing Br. at 10–12; Staff Post-Hearing Br. at 15; and Tr. (Xiong) at 57:24–59:18.

[7] Shun Chuen is often referred to in the hearing transcript as SC. Tr. (Xiong) at 30:9–15; Foshan Nahong is often referred to in the hearing transcript as FN. Tr. (Xiong) at 51:14–52.5; and Foshan Baoshuo is often referred to in the hearing transcript as FB. Tr. (Xiong) at 205:8–12.

1. Extent the Trade Secret Was Known Outside Vego Garden

Vego Garden contends that its 8-inch product development trade secret was not generally known outside of Vego Garden. Complainant Post-Hearing Br. at 22. The Staff agrees that Respondents have not shown that 8-inch garden beds were known in the industry before Green Giant began selling its 8-inch raised garden beds. *See* Staff Post-Hearing Br. at 16–17.

Mr. Xiong testified that Vego Garden spent roughly a year investigating customer sentiment, performing market research, and analyzing manufacturing and marketing costs before launching its 8-inch product line. *See* Tr. (Xiong) at 58:15–59:6. Mr. Xiong further testified that no other competitor was offering an 8-inch product when Vego Garden began considering it, *id.* at 58:10–13, and that Vego Garden only disclosed this information outside of Vego Garden to its manufacturer Shun Chuen. *See id.* at 59:16–18; Complainant Post-Hearing Br. at 11, 22; *see also* SX-0005C.007-009 (Vego Garden's Supp. Resp. to the Staff's First Set of Interrogatories).

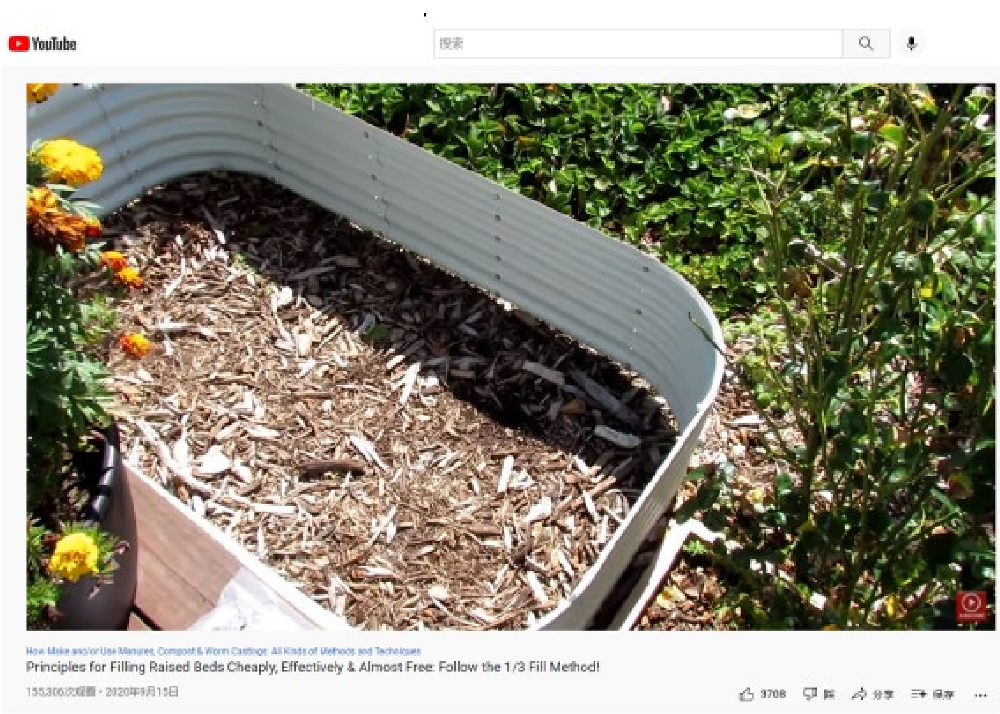
Before Vego Garden offered an 8-inch product on the market, Respondents did. The evidence shows that, before Utopban offered Green Giant's 8-inch product line for sale in the United States, no other raised metal garden bed product of this height was available in the market. Mr. Li, Utopban's corporate representative, testified as follows:

> Q. Mr. Li, before the break, one of the issues we talked about was the 8-inch type garden bed.
>
> And did Utopban Limited do any type of research to determine whether an 8-inch market – or, excuse me, an 8-inch height garden bed would be acceptable to the market?
>
> A. I don't – I didn't do any market research, but – because manufacturer [Green Giant] told me that they have this product available. And then, for me, I realize that this product was also not available in the market.

CX-0501 (Li Dep.) at 44:24–45:9; *see also id.* at 83:5–9 (Green Giant is the only manufacturer from which Utopban obtains raised metal garden bed products).

Respondents contend that "Mr. Li testified that the reason he stated no 8" raised garden beds in the market prior to Utopban's entry of the market is that he did not do any research on this product." Respondents Post-Hearing Br. at 16, *citing* Tr. (Li) at 330:7–9. Mr. Li may have done no "research," but he unambiguously testified at his deposition that an 8-inch product was "not available in the market." CX-0501 (Li Dep.) at 44:24–45:9. Respondents' attempt to explain away Mr. Li's testimony is unpersuasive.

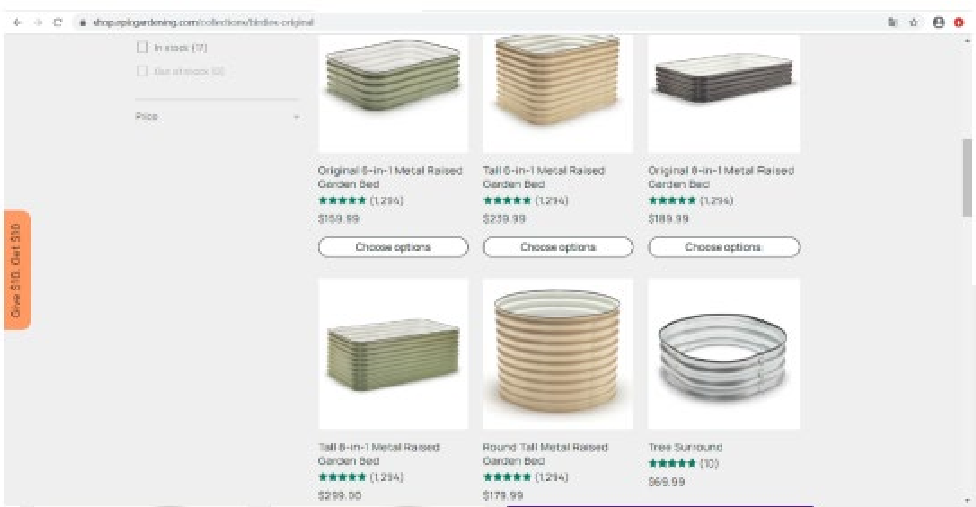
Respondents also contend that "raised garden bed products with lower height are known in the industry" and that searching on the internet "will reveal lower height raised garden bed as well as tree ring with similar heights." Respondents Post-Hearing Br. at 12; *see also* Respondents Post-Hearing Resp. Br. at 7–9. Respondents cite (without reference to any specific pages) to a document that is a collection of website information prepared by Mr. Lu, the founder of Green Giant, purporting to show availability in the market of various raised metal garden bed products. Respondents Post-Hearing Br. at 12; RX-0004; and Tr. (Lu) at 361:18–362:1 (Mr. Lu prepared RX-0004). This collection of information, however, does not include any information about or an image of an 8-inch raised metal garden bed product, nor does it otherwise show that an 8-inch raised metal garden bed product was known before Utopban launched its 8-inch product. *See generally* RX-0004. For example, RX-0004 includes the following image, apparently a YouTube screenshot:



RX-0004 at 32.

While this is a picture of a raised metal garden bed, with a date of September 15, 2020, its height is not disclosed and appears to be greater than eight inches.

RX-0004 also includes images of an 8-inch tree ring, such as the following:



RX-0004 at 24.

There is no date provided for this screenshot, which is apparently from the website https://shop.epicgardening.com/collections/birdies-original, RX-0004 at 24, and thus it does not support that an 8-inch product was known before Utopban's introduction of Green Giant's 8-inch product. Respondents do not cite any information in RX-0004 suggesting that an 8-inch product was known before Utopban introduced its 8-inch product to the market. *See* Respondents Post-Hearing Br. at 12.

Respondents also argue that "there were ample public information about lower garden beds on the market" including raised metal garden beds and tree rings. Respondents Post-Hearing Resp. Br. at 9, additionally citing RX-0015, RX-0017, RX-0057, and RX-0059; *see also* Respondents Post-Hearing Resp. Br. at 8. None of the documents cited by Respondents, however, disclose an 8-inch raised metal garden bed product. RX-0015 is U.S. Patent Publ. No. 2015/0233405, which discloses, at most, a modular garden bed having a maximum height of less than 75 cm (30 inches). *See* RX-0015 at [0020]. RX-0017 is U.S. Patent Publ. No. 2012/0096766, which discloses a modular garden bed but lacks any description as to its height. *See generally* RX-0017. RX-0057 and RX-0059 appear to be screenshots of YouTube videos for Birdie's Raised Garden Beds, neither of which discloses an 8-inch raised metal garden bed product.

Respondents also contend that Vego Garden's sale of an 8-inch tree ring publicly disclosed its 8-inch product development trade secret. Respondents Post-Hearing Br. at 13. Mr. Xiong testified, however, that Vego Garden only launched its 8-inch tree ring product[8] in February 2023,

[8] Vego Garden has not distinguished a tree ring product from a raised metal garden bed and Respondents appear to argue that a tree ring is a type of raised metal garden bed. Respondents Post-Hearing Br. at 12–13; Respondents Post-Hearing Resp. Br. at 10; and Tr (Xiong) at 193:1–12 (testifying that tree rings can be used as raised metal garden beds and are sold "under the raised garden bed parent menu.") Thus, in considering whether Vego Garden's 8-inch product

after Utopban first offered Green Giant's 8-inch raised metal garden bed product in around the first quarter of 2022. *See* Tr. (Xiong) at 59:21–60:2 (Vego Garden offered its 8-inch tree ring product in February 2023)[9], CX-0019 at VEGO-ITC-00164-166 (Green Giant catalog showing 8-inch product); Tr. (Lu) at 358:12–25 (Green Giant introduced 8-inch product); CX-0501 (Li Dep.) at 29:24–30:13 (Utopban offered an 8-inch product in around the first quarter of 2022). In addition, while Utopban's sale of 8-inch raised metal garden beds publicly disclosed Vego Garden's alleged trade secret, Vego Garden contends that Respondents were only able to launch such a product because of misappropriation of its trade secret. Complainant Post-Hearing Br. at 10–12.

Respondents also note that Mr. Lu testified that 8-inches was a standard size available on the market and that the reason Green Giant manufactured an 8-inch product was because its machine could do so. Respondents' Post-Hearing Resp. Br. at 9, *citing* Tr. (Lu) at 358:15–20; 356:23–358:11; 356:23–357:5 and 15–24. This testimony from Mr. Lu, however, is not credible because there is no evidence that 8-inch products were known or "standard" before Respondents introduced them to the market. If 8-inch products were standard, there would be some evidence that they previously existed in the market. There is not.[10]

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development trade secret was known outside of Vego Garden, I have considered whether any such product was known, whether called a raised garden bed or a tree ring.

[9] Respondents contend that Vego Garden launched its 8-inch product "at earliest in December 2022 as there was already customers' review on Complainant's website." Respondents Post-Hearing Resp. Br. at 10. Respondents cite no evidence supporting this assertion. In addition, the relevant point is that Vego Garden offered its 8-inch product to the market *after* Respondents. This does not appear to be disputed by Respondents.

[10] Respondents also argue that "Green Giant's 8-inch product is not really an 8-inch" product because it measures 7.87 inches. Respondents' Post-Hearing Resp. Br. at 9 and n.4. To the extent Respondents are arguing that their products do not incorporate Vego Garden's trade secret because they measure slightly less than 8 inches, Respondents did not raise that issue in their pre-hearing brief, and thus waived it. *See* Respondents Pre-Hearing Br. at 16–19; and Order No. 14 (Ground

The evidence shows that the 8-inch product development trade secret was not generally known outside Vego Garden until Respondents introduced such a product onto the market.

2. Extent All Trade Secrets Were Known Inside Vego Garden

Vego Garden contends that it has taken significant steps to protect its confidential information, including: (1) employment handbooks identifying employee confidentiality obligations; (2) segregating access to trade secret information based on an employee's role at the company; (3) storing trade secret information in network storage folders and limiting access to such folders; (4) user-level access limitation to electronic files in its computer system; (5) password-protected electronic files; (6) location of physical files in locked cabinets with limited access; (7) key card access restriction to areas in Vego Garden's offices with trade secret information, and (8) termination of access by former Vego Garden employees to electronic files and equipment upon separation from the company. Tr. (Xiong) at 69:5–71:2 (Mr. Xiong explaining Vego Garden's security measures); JX-0016 (Vego Garden September 2020 Employee Handbook at section 5–9, addressing protection of company confidential information); JX-0018 (Vego Garden October 2022 Employee Handbook at section 6-13, addressing protection of company confidential information); and SX-0002C.011–12 (responses to Staff interrogatories). The Staff agrees that Vego Garden has implemented sufficient measures within the company to protect its confidential information. Staff Post-Hearing Br. at 17–20.

Rules) at 11.2. Further, Mr. Li testified that he rounded up to 8-inches "to be convenient." The evidence supports that as a matter of nomenclature, Respondents' product is an 8-inch product although it may measure slightly less than that. Tr (Li) at 313:18–22. Indeed, Mr. Lu, testifying about RDX-0002 (identifying a height of 7.87 inches in Figure C), confirmed that an 8-inch product was shown, contrary to Respondents' argument. Tr. (Lu) at 356:18–357:5.

Respondents contend that Vego Garden did not adequately internally protect its confidential information. Respondents Post-Hearing Br. at 13. Respondents rely on the testimony of Mr. Xiong and allege that "he only testified that [Vego Garden's] computers are password protected" and not individual files. *Id.*, *citing* Tr. (Xiong) at 70:13–14. A fair reading of Mr. Xiong's testimony, however, does not support Respondents' assertion. Mr. Xiong testified that, "we have all the employees -- in the employee handbook we emphasize the confidential and how important it is, and we limit access of information we have to the employees." Tr. (Xiong) at 69:9–12. Mr. Xiong also testified that, even within Vego Garden, access to confidential information was only provided on a need-to-know basis: "[d]ifferent employees have different access to different folders, and we limit their access, only give the information that -- they have to have access in order to perform their work." *Id.* at 70:9–12. Further, Mr. Xiong testified at the hearing that employees use key cards to access Vego Garden's facilities, and Vego Garden disables all access to confidential information immediately upon an employee's separation from the company. *Id.* at 70:15–71:2.

The evidence thus demonstrates that Vego Garden employees each have electronic access to the specific information that need for their job. Information is stored on a secure server, access to the network storage folders is limited, and any physical file containing Vego Garden's trade secret information is maintained in a locked cabinet, accessible only by those who have a need to know such information. SX-0002C.011–012 (Vego Garden's Resp. to the Green Giant's First Set of Interrogatories). Areas in Vego Garden's offices where any file containing Vego Garden's trade secrets are further restricted to those who have a key card, allowing access to such areas. Tr. (Xiong) at 70:15–20, SX-0002C.011-012; *see also* SX-0005C.007–008 (Vego Garden's Supp. Resp. to the Staff's First Set of Interrogatories).

Respondents also assert that Vego Garden did not internally protect its own information because it "shared the same employees with Worldlink and G&A partners." Respondents Post-Hearing Br. at 13; *see also* Respondents Post-Hearing Resp. Br. at 11–12. Mr. Xiong testified that Worldlink is the predecessor company to what is now known as Vego Garden. Tr. (Xiong) at 25:12–22 (Worldlink made first sales of raised metal garden beds), 94:7–19 (Worldlink is Vego Garden's predecessor); 95:5–12 (Worldlink employees became Vego Garden employees and has the same address), 95:18–22 ("[Worldlink is] the same group of people. And it is correct to say that Worldlink is part of Vego Garden."). As such, the Worldlink (now Vego Garden) employees would have been subject to the confidentiality terms set forth in the September 2020 version of Vego Garden's Employee Handbook (as well as all successor versions of the Handbook) as well as the other measures to maintain secrecy. JX-0016 (Vego Garden Employee Handbook (Sept. 2020)) at 22.

As to G&A Partners, the evidence shows that this entity is "a Professional Employer Organization" "responsible for administration of payroll, workers' compensation, and benefits (if sponsored by G&A), federal and state unemployment insurance and certain human resources functions not performed by Vego Garden Inc." JX-0016 at 2; *see also* JX-0018 (Vego Garden Employee Handbook (Oct. 2022)) at 2. There is no evidence that G&A Partners ever shared employees with Vego Garden, as Respondents assert.[11] In addition, there is no evidence that G&A Partners ever had access to any Vego Garden trade secret information.

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[11] Respondents contend that the "Staff's argument that the shared employees with G&A Partners highly unlikely has access to the alleged trade secrets, and there is no evidence suggesting such access is an attorney argument." Respondents Post-Hearing Resp. Br. at 12. To the extent this argument is understood, the evidence does not support that Vego Garden shared employees with G&A Partners and does not support that Vego Garden shared any trade secret information with

The evidence supports that Vego Garden took appropriate steps to guard all of its asserted trade secret information within the company.

3. Steps Taken By Vego Garden to Protect the Trade Secret

Vego Garden disclosed its 8-inch product development trade secret to its manufacturer, Shun Chuen. Tr. (Xiong) at 59:16–18 and 74:7–9. The evidence demonstrates that Vego Garden and Shun Chuen entered into a mutual confidentiality agreement in April 2022 by which Shun Chuen agreed to maintain the confidentiality of Vego Garden's information. JX-0020 at VEGO-ITC004289.[12] The agreement identifies a wide array of information as confidential. *Id*. at VEGO-ITC004287. Respondents do not dispute the validity or scope of this agreement, instead arguing that information disclosed by Vego Garden to Shun Chuen was not adequately protected before the April 2022 execution of the agreement. Respondents Post-Hearing Br. at 14. Mr. Xiong testified that there was an oral agreement in place between Vego Garden and Shun Chuen before execution of the written agreement in April 2022. Tr. (Xiong) at 71:15–20. Mr. Xiong testified that at the start of the collaboration between the companies, he spoke with Mrs. Xiong[13] of Shun

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G&A Partners. The fact that G&A Partners performs purely administrative (payroll, workers' compensation, and benefits) functions supports that it did not and would not receive trade secret information. Respondents' arguments to the contrary are baseless. JX-0016 and JX-0018.

[12] Respondents contend that "Mr. Xiong only asked for Shun Chuen's internal procedures relating to trade secret protection after the imitation [sic, institution] of this Investigation." Respondents Post-Hearing Br. at 15, *citing* Tr. (Xiong) at 168:13–18. There, Mr. Xiong testified that there was a mutual confidentiality understanding with Shun Chuen and that "later on [Vego Garden] decided to put it in writing because of this legal case." The confidentiality agreement between Vego Garden and Shun Chuen has an effective date in April 2022. JX-0020. The complaint in this investigation was not filed until September 2022. Moreover, even if the written confidentiality agreement was executed with an eye toward litigation, that does not refute either that agreement or that there was an oral agreement between the parties before that.

[13] Mr. Xiong testified that Mrs. Xiong is a remote relative, with the same family name. Tr. (Xiong) at 189:20–190:5.

Chuen about the collaboration and emphasized that it was a confidential project and that only certain people would have access to it. Tr. (Xiong) at 189:10–17.

An oral confidentiality agreement may be a reasonable measure to guard secrecy. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 725–26 (7th Cir. 2003). This is true here, where the business relationship between Vego Garden and Shun Chuen as client/manufacturer, supports that Vego Garden's confidential information would be maintained as secret by Shun Chuen. Further, the entities here are small and relatively unsophisticated, further supporting that Vego Garden's oral confidentiality agreement with its manufacturer Shun Chuen was appropriate under the circumstances.

Respondents dispute the existence of an oral agreement by arguing that Mr. Xiong did not remember if there was any written record of the oral agreement. Respondents Post-Hearing Br. at 14–15. Whether there was a written record of an oral agreement, however, is beside the point. Mr. Xiong was clear that from the beginning of Vego Garden's relationship with Shun Chuen, the parties understood that Shun Chuen would maintain the confidentiality of Vego Garden's information. Tr. (Xiong) at 189:13–21. While Respondents contend that there is no testimony or evidence regarding whether anyone at Shun Chuen agreed to keep Vego Garden's information confidential, the unambiguous testimony of Mr. Xiong, the nature of the relationship between Vego Garden and Shun Chuen, and the later execution of the written confidentiality agreement each support that there was an oral agreement with Shun Chuen to maintain the confidentiality of Vego Garden's information.

Respondents also contend that "Mr. Xiong then offered contradict[ary] testimony that the alleged mutual understanding was between CEO from Shun Chuen who was not at Shun Chuen." Respondents Post-Hearing Br. at 15, *citing* Tr. (Xiong) at 169:2–10. There, however, Mr. Xiong explained that a different person at Shun Chuen, its general manager (not Mrs. Xiong) also understood that there was an oral confidentiality understanding between the companies and that there was a delay in executing a written agreement at least in part due to COVID. Tr. (Xiong) at 169:2–10. There is nothing inconsistent in Mr. Xiong's testimony and there is nothing anomalous in the fact that at least two people at Shun Chuen understood the company had a confidential relationship with Vego Garden.

Respondents also question Mr. Xiong's testimony about the location of Shun Chuen's general manager and why he could not sign a confidentiality agreement before April 2022. Respondents Post-Hearing Resp. Br. at 12. Mr. Xiong was clear, however, that the general manager of Shun Chuen was not available to sign the agreement. And whether the April 2022 agreement could have been signed earlier does not change that the evidence supports the existence of an oral confidentiality agreement beginning when Vego Garden and Shun Chuen started working together.

Respondents also contend that "[n]ot surprisingly, the meeting minute produced by Vego dated June 8, 2021 is further contradicted with the alleged oral agreement as it is not marked as confidential or proprietary," pointing to CX-0032. Respondents Post-Hearing Br. at 15. The fact that a single meeting minutes document is not labeled as confidential, however, is not dispositive and, in fact, is not especially meaningful. Moreover, Respondents do not contend that this particular document contains any confidential or trade secret information.

Relying on testimony from their expert, Respondents also appear to contend that non-disclosure agreements and confidential markings are required, or trade secret protection is lost. Respondents Post-Hearing Br. at 15–16; *see also* Respondents Post-Hearing Resp. Br. at 12–13. This is wrong. Instead, what is required is that Vego Garden took reasonable steps to guard the secrecy of its information. Tr. (Phillips) at 453:11–17 (Respondents' expert confirming that reasonable steps are required to maintain secrecy). Whether reasonable steps were taken is considered based on the particular circumstances, including the industry at issue and the size and sophistication of the parties. *Learning Curve*, 342 F.3d at 726.

Respondents also cite several cases for the propositions that "an implied contract of confidentiality" is insufficient and an "alleged duty of loyalty 'does not somehow transform . . . freely-shared information into a *secret*.'" Respondents Post-Hearing Br. at 16, *citing Investment Science*, *LLC v. Oath Holdings Inc.*, 2021 WL 3541152 (S.D.N.Y. Aug. 11, 2021); and *Zabit v. Brandometry*, 540 F. Supp. 3d 412 (S.D.N.Y. 2021). Here, however, there is no implied contract of confidentiality and no alleged duty of loyalty. Instead, the evidence demonstrates that Vego Garden and its manufacturer entered into an oral confidentiality agreement at the beginning of their relationship and later entered into a written confidentiality agreement. What is reasonable with respect to confidentiality is case-specific. In appropriate circumstances, such as this one, an "express agreement [is] not necessary where the actions of the parties, the nature of their arrangement, the 'whole picture' of their relationship established the existence of a confidential relationship." *Daniels Health Sciences, LLC v. Vascular Health Sciences, L.L.C.*, 710 F.3d 579, 584 (5th Cir. 2013).

Respondents also cite cases for the proposition that a signed confidentiality agreement standing alone is not sufficient to confer trade secret status on any underlying information. Respondents Post-Hearing Br. at 16, *citing Universal Processing LLC v. Weile Zhuang*, 2018 WL 4684115 (S.D.N.Y. Sept. 28, 2018); and *Elsevier Inc. v. Doctor Evidence, LLC*, 2018 WL 557906 (S.D.N.Y. Jan. 23, 2018). That, however, is beside the point. Vego Garden has not argued that the fact of a confidential relationship or agreement renders its information trade secret.

The evidence supports that Vego Garden took reasonable precautions to protect its 8-inch product development trade secret.

4. Value of the Trade Secret to Vego Garden and Competitors

A trade secret "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." Uniform Trade Secrets Act (UTSA) §1(4); *Activity Trackers*, Inv. No. 337-TA-963, Initial Determination at 18. In addition, there can be significant economic value to having a competitive head start and introducing a new product to the market. *Crawler Cranes*, Inv. No. 337-TA-887, Initial Determination at 145; *see* Staff Post-Hearing Br. at 20.

Vego Garden argues that the value to any competitor in the raised metal garden bed industry of being the first to market is significant, as customers in this market are reluctant to use multiple branded raised metal garden beds in their gardens. Complainant Post-Hearing Br. at 24. Vego Garden also contends that Respondents obtained that benefit because they were first to market with an 8-inch product. Respondents argue that Complainant did not provide evidence showing that its 8-inch product development trade secret provided a competitive advantage, whether or not Vego Garden would have been first to the market. Respondents Post-Hearing Br. at 17.

The evidence shows that Vego Garden's research and development concerning an 8-inch product line, including a market need based on discussions with customers, likely afforded Vego Garden a competitive advantage. Tr. (Xiong) at 47:8–22, 57:24–58:12. Over approximately a one-year period, Vego Garden engaged in research and development regarding the viability and designs for the 8-inch height market, which supported Vego Garden's decision to move into this market, when possible, with current production demands. *Id.* at 58:13–59:13. In particular, Vego Garden collected customer feedback about the price point and preferences. *See id*. This market research led Vego Garden to conclude that it could capture a submarket for its raised metal garden beds if it could reduce the product's price by reducing its height. *See id*.

In addition, Utopban's corporate representative, Mr. Li, testified that there was value to being the only player on the market to offer an 8-inch product line:

> Q. And I think my final topic that I'm interested in is, how does Utopban Limited differentiate its metal raised garden beds from competitors such as Vego?
>
> A. I have the eight inches height product, but Vego does not. And then these are the advantages that the manufacturers informed me of in the beginning, which I believe that any advantage that the product carries will be transferred to -- will be translated into my advantages in terms of product sales.

CX-0501 (Li Dep.) at 86:18–87:14.[14]

Respondents contend that "there should be no value to interexchange the usage of tree ring and raised garden bed as a customer can figure this out if he/she needs." Respondents Post-Hearing Br. at 16. To the extent this argument is understood (there is no value to an 8-inch product development trade secret because the 8-inch tree ring was already known), as explained above, Respondents provided no evidence that an 8-inch raised metal garden bed or tree ring was introduced to the market before Utopban did so, and as alleged by Vego Garden, using its trade secret information.

[14] Respondents contend that "[i]f this product [the 8-inch product] indeed afforded a competitive advantage or any obvious competitive advantage, then Mr. Li would certainly have conducted research with respect to the products." Respondents Post-Hearing Br. at 16. This argument is contradicted by the evidence: Mr. Li testified that he had an 8-inch product, Vego Garden did not, and that Utopban was advantaged by first entry. *Id.*

Respondents also argue that merely contending that something has value does not make it so. Respondents Post-Hearing Resp. Br. at 13. This, however, is not what Vego Garden has done. Instead, Vego Garden adduced evidence, some of it from Respondents themselves, that there was value to being first on the market with a new 8-inch product.

Based on the record evidence, I find that this factor weighs in favor of finding a protectable trade secret.

5. Amount of Effort or Money Expended in Development

Vego Garden contends that it invested significant time and resources in the development of its trade secrets. Complainant Post-Hearing Br. at 26. As to its 8-inch product development trade secret, Vego Garden presented evidence that, during 2021, it expended over $27,000 in direct research and development costs related to the 8-inch product, Tr. (Xiong) at 29:13–19, and the total costs associated with research and development of this new product line were estimated to be in the $50,000 range, *id.* at 59:2–9. Additionally, Vego Garden's witness explained that the research and development into an 8-inch product line, which began in 2021 ("like one year after we launched our initial products"), involved conducting extensive market-side research to gather customer feedback as well as technical discussions with Vego Garden's manufacturer to ensure the lower-height products would be compatible with Vego Garden's existing manufacturing equipment, and took around 12 months. Tr. (Xiong) at 57:24–59:9, 134:23–135:6. The Staff agrees that Vego Garden has presented evidence demonstrating its investments in research and development of its 8-inch product development trade secret. Staff Post-Hearing Br. at 21.

Respondents contend that it "is difficult if not impossible to infer or put into context the economic value of product development research" and that the "self-serving assertions made by an interested witness should not be given any weight." Respondents Post-Hearing Resp. Br. at 14.

Vego Garden's efforts, however, can be put into context; it sought to add a new and less expensive item to its product line, hoping to expand its offerings and increase its market. The evidence, which I find credible, supports Vego Garden's efforts to do so. In addition, while Vego Garden's monetary expenditures were not presented with mathematical certainty, under the circumstances, those estimates were reasonable and reliable.

Respondents also argue that "since Vego shared employees with Worldlink and G&A Partners, it is not clear how many hours these shared employees were devoted to Vego, and in these hours devoted to Vego, how many hours were devoted to research and development." Respondents Post-Hearing Br. at 17. As noted, Respondents' arguments regarding both Worldlink and G&A Partners are unpersuasive. *See, e.g.*, Tr. (Xiong) at 25:12–22, 94:7–19; *see also id.* at 95:5–12; JX-0016 at 2; *see also* JX-0018 at 2. *See* section V.C.2.

Based on the record evidence, I find that this factor weighs in favor of finding a protectable trade secret.

6. Extent the Trade Secret Is Readily Ascertainable

The final *Sausage Casings* factor considers the ease/difficulty with which the asserted trade secret could be properly acquired or duplicated by others. *Sausage Casings*, Inv. Nos. 337-TA-148/169, Initial Determination at 245–246.

Respondents contend that the 8-inch product development trade secret can be easily acquired or duplicated by others, contending that if a customer purchased a raised metal garden bed, they could "cut the height" and make a shorter product. Respondents Post-Hearing Br. at 13; *see also* Respondents Post-Hearing Resp. Br. at 15 (the products can be reverse engineered). I agree with the Staff that Respondents' argument misses the point. Staff Post-Hearing Br. at 21–

22. The correct question is whether the 8-inch product development trade secret was ascertainable before it was used by Respondents to be the first to enter the market.

While in the abstract, selecting a height of a raised metal garden bed product sounds self-evident, the evidence demonstrates that determining the particular appropriate height of a new raised metal garden bed product depended on a number of factors, including a technical assessment of what would be compatible with the manufacturing equipment used to make Vego Garden's products as well as customer feedback to determine what type of product would be appropriate and price effective. Tr. (Xiong) at 57:4–59:9 and 134:23–135:6. Further, and as noted above, there were no manufacturers offering an 8-inch product line when Vego Garden was developing this new product line. *Id.* at 58:10–12 (testifying that there were no competitors in the market offering an 8-inch product line). And tellingly, Utopban's general manager admitted that 8-inch garden bed products were not available on the market before Utopban began selling them. *See* CX-0501 (Li Dep.) at 45:1–9 (stating "for me, I realize that this product was also not available in the market"), 87:9–10 ("I have the eight inches height product, but Vego does not."). Utopban's recognition that it had an advantage in the market over Vego Garden with an 8-inch product line supports that Vego Garden's 8-inch product development trade secret was not readily ascertainable.

Based on the record evidence, I find that this factor weighs in favor of finding a protectable trade secret.

7. Conclusion

The evidence relating to each of the *Sausage Casings* factors supports that Vego Garden's 8-inch product development trade secret is a protectable trade secret. I accordingly find that Vego Garden's 8-inch product development trade secret is a protectable trade secret.

D. The Asserted Protective Film Trade Secret

Vego Garden's second asserted trade secret relates to the testing and selection of the film it uses to protect the finish of the metal during manufacture and shipping of its raised metal garden bed products. Complainant Post-Hearing Br. at 16 and 27; *see also* Complainant Post-Hearing Resp. Br. at 13.

The Staff contends that Vego Garden's identification of the information it argues comprises this trade secret has changed in that it initially was "research and experimentation relating to the protective film used to protect the finish" of its raised metal garden bed products but that Vego Garden "now appears to argue that this trade secret is the ultimate selection of and/or identity of the protective film itself." Staff Post-Hearing Br. at 22–23. The Staff points to pages 13, 22, and 27 of Vego Garden's post-hearing brief as supporting this change. *Id*. at 23. At page 13, Vego Garden contends that "[w]ithout knowing the film product purchased by Vego for its products, a third party would be required to undergo the same trial and error experimentation undertaken by Vego." At page 22, Vego Garden references "the film Shun Chuen used" and "the film used by Vego." At page 27, Vego Garden states that it "researched and tested various films for over a year to finally determine a product that Vego believed best met the balance between the competing goals of providing protection during manufacturing and shipping and ease of removal."

Based on its arguments, Vego Garden has not changed its articulation of its trade secret, though it has emphasized that its ultimate selection of an appropriate protective film is part of its trade secret, which selection was attained because of its research and testing.

1. Extent the Trade Secret Was Known Outside Vego Garden

Respondents argue that the protective film was an existing product at the time, and that Vego Garden did not produce evidence showing specific details concerning its alleged research and testing of various protective films. Respondents Post-Hearing Br. at 17–18. The Staff argues that the film's existence and use was likely known to at least the suppliers of such films. Staff Post-Hearing Br. at 24.

The evidence shows that the protective film was known in the industry. For example, Mr. Xiong testified as follows:

> Q. Well, you are aware that protective film is a common feature for metal products, correct?
>
> A. I know it could be, some people use it, but I'm not sure if it's in raised garden beds an existing film or it exists.
>
> Q. Well, Vego was also aware that the protective film that Vego chooses, it already existed at the time, correct?
>
> A. Yes, it's an existing product.

Tr. (Xiong) at 139:11–19.

Complainant's expert, Dr. Beaman, testified as follows:

> Q. It is also your understanding that Vego's manufacturer purchased the protective film from third-party supplier, correct?
>
> A. I believe that's true, yes.
>
> Q. And a competitor could also purchase the protective film from the third party, correct?
>
> A. I'm sorry, these headphones are cutting – go ahead. Can you ask that again?
>
> Q. A competitor could also purchase the protective film from a third-party supplier, correct?
>
> A. Oh, a competitor, right. Could they? Yeah, it certainly is a film I think you could buy. Yes.

Tr. (Beaman) at 413:20–414:6.

Vego Garden contends that the fact that the film existed "does not automatically indicate that the film would be the most appropriate for Vego's (or Respondents') needs." Complainant

Post-Hearing Resp. Br. at 13. Vego Garden points to testimony of Mr. Xiong, stating that the selection of a protective film for a raised metal garden bed is "a very special and niche occasion," requiring no damage in the manufacturing process, placement in a box, shipping, and storage in inventory. *Id*; and Tr. (Xiong) at 61:13–23.

Respondents, however, presented evidence that the process of selecting an appropriate protective film is known and that as such, Vego Garden's research, development, and selection of its protective film was known outside of Vego Garden. Tr. (Lu) at 366:1–367:25 (protective films are available from various suppliers, which assist in choosing them based on a customer's need); Tr. (Jones) at 463:7–18 (Respondents' expert testifying that protective films are commonly used on metal products and that selecting an appropriate film would not be difficult). In addition, Vego Garden has not shown that the circumstances driving the selection of its film are different or unique from those others with similar products face.

While it may have taken time and resources for Vego Garden to determine an appropriate protective film, Respondents' evidence is persuasive that multiple suppliers provide such films and that such films are common on products similar to raised metal garden beds and the conditions under which such a film must be effective are not unique and would exist with other common products. I find that the evidence supports that Vego Garden's protective film trade secret was generally known outside Vego Garden.

2. Extent the Trade Secret Was Known Inside Vego Garden

This is addressed in section V.C.2. The evidence supports that Vego Garden has taken appropriate steps to guard its protective film trade secret information within the company.

3. Steps Taken by Vego Garden to Protect the Trade Secret

Vego Garden states that it only disclosed its research and testing of various protective films and the ultimate selection of its protective film to its manufacturer, Shun Chuen. Complainant Post-Hearing Br. at 22. The confidentiality obligations between Vego Garden and Shun Chuen are addressed in section V.C.3; *see also* JX-0020. Mr. Xiong testified that Foshan Nahong also knows its selected protective film because it will apply it to product delivered to Shun Chuen. Tr. (Xiong) at 62:2–13. The confidentiality obligations between Shun Chuen and Foshan Nahong are addressed in section VI.B.2.a; *see also* JX-0014C. In addition, Mr. Xiong testified that there was an understanding of confidentiality between Vego Garden and Foshan Nahong. Tr. (Xiong) at 71:3–20.

Respondents contend that because various documents asserted to relate to Vego Garden's protective film are not labeled as confidential, Vego Garden did not take adequate steps to protect its confidential information. Respondents Post-Hearing Br. at 18. CX-0009, CX-0010, and CX-0011 appear to relate to Vego Garden's alleged bending machine trade secret, were initially designated as confidential, but have been de-designated because of the publication of that trade secret. *See* section V.E.1. CX-0023, CX-0025, CX-0026, CX-0027, CX-0028, CX-0029, and CX-0030 are not on the exhibit list. *See* Exhibit List (EDIS Doc. ID 803757).[15] CX-0024 relates to the

[15] The private parties had significant difficulties filing correct exhibit lists and submitting correct exhibits. I issued two orders regarding the parties' exhibit list and exhibits, Order No. 28 (Jul. 27, 2023) (EDIS Doc. ID 800959) and Order No. 30 (Aug. 14, 2023) (EDIS Doc. ID 802308), the latter identifying certain errors, directing the parties to file a corrected exhibit list, and advising them to carefully review it before filing. Nonetheless, several more exhibit lists were filed but required correction. The final exhibit list identifying Respondents' exhibits was filed September 6. (EDIS Doc. ID 803915). The final exhibit list identifying Complainant's exhibits, the Staff's exhibits and the joint exhibits was filed on September 5. (EDIS Doc. ID 803757). The listing of Respondents' exhibits in the September 5 filing should be ignored.

mating of a screw and nut and appears irrelevant to the selection of Vego Garden's protective film. CX-0031 relates to vibration testing and appears to be irrelevant to the selection of Vego Garden's protective film. CX-0032 is addressed in section V.C.3.

The evidence supports that Vego Garden took reasonable precautions to protect its protective film trade secret.

4. Value of the Trade Secret to Vego Garden and Competitors

Vego Garden argues there is substantial value in "keeping the identity of the particular film [Vego Garden] utilized a secret to avoid competitors from free-riding off Vego's research and development efforts." Complainant Post-Hearing Br. at 25, *citing* Tr. (Xiong) at 76:20–25 (testifying that knowledge of Vego Garden's film would save a competitor around one-year of research and development and allow them to launch a product more quickly). Mr. Xiong also testified that selection of a protective film for a raised metal garden bed is "a very special and niche occasion," requiring no damage in the manufacturing process, placement in a box, shipping, and storage in inventory. Tr. (Xiong) at 61:13–23. Vego Garden's expert testified that there was "value in the film "in that "you had to get the right kind of polymer, and it takes a little time to get that done." Tr. (Beaman) at 408:10–17.

Respondents, however, presented evidence that the process of selecting an appropriate protective film is known and that as such, Vego Garden's research, development, and selection of its protective film has little or no value to competitors. Tr. (Lu) at 366:1–367:25 (protective films are available from various suppliers, which assist in choosing them based on a customer's need); Tr. (Jones) at 463:7–18 (Respondents' expert testifying that protective films are commonly used on metal products and that selecting an appropriate film would not be difficult).

While it may have taken time and resources for Vego Garden to determine an appropriate protective film, Respondents' evidence is persuasive that multiple suppliers provide such films and that such films are common on products similar to raised metal garden beds. In addition, Vego Garden has not shown that the circumstances for the selection of its film are different or unique from those that others face. Based on the record evidence, I find that this factor weighs against finding Vego Garden's protective film trade secret protectable as a trade secret.

5. Amount of Effort or Money Expended in Development

Vego Garden presented evidence that, during 2021, it expended over $27,000 in direct research and development costs related to research and development and selection of its protective film, Tr. (Xiong) at 29:20–22, and it spent approximately 12 months to find a film that best balanced protective attributes and ease of removal by the customer. *Id.* at 61:9–62:1. Additionally, Mr. Xiong testified that the total costs associated with research, development, and selection of its protective film were approximately $86,000. *Id.* at 30:18–31:1. While Vego Garden's monetary expenditures were not presented with mathematical certainty, under the circumstances, I find that its estimates were reasonable and reliable.

Respondents argue that "since Vego shared employees with Worldlink and G&A Partners, it is not clear how many hours these shared employees were devoted to Vego, and in these hours devoted to Vego, how many hours were devoted to research and development relevant to the alleged protective films." Respondents Post-Hearing Br. at 18–19. As noted, Respondents' arguments regarding both Worldlink and G&A Partners are unpersuasive. *See* section V.C.2.

Based on the record evidence, I find that this factor weighs in favor of finding a protectable trade secret.

6. Extent the Trade Secret Is Readily Ascertainable

Vego Garden argues that, while there are "a number of film manufacturers," "finding a protective film product that is easily removable by the customer and provides sufficient protection during the manufacturing and shipping process—where the product is often subjected to months of harsh conditions—takes substantial time and effort," Complainant Post-Hearing Br. at 27, *citing* Tr. (Xiong) at 61:12–62:1. Vego Garden also presented evidence that a chemical analysis of its film may "not necessarily sufficiently reveal the composition of the film," Tr. (Beaman) at 407:13–24, thus arguing that the identification of its film is not readily ascertainable. Complainant Post-Hearing Br. at 22; *see also* Complainant Post-Hearing Resp. Br. at 14.

Respondents provided evidence that many consumer products have components formed from sheet metal that come with protective films that must be removed by the customer. *See* Respondents Post-Hearing Br. at 18, *citing* Tr. (Jones) at 463:7–14. Respondents also provided evidence that "protective films are generally available from suppliers who have expertise in selecting appropriate films for specific application." *Id.*, *citing* Tr. (Jones) at 463:15–18. Respondents' expert, Mr. Jones, testified that the use of protective films in sheet metal construction, which customers are required to remove prior to use, is widespread. Tr. (Jones) at 463:7–14. Mr. Jones further testified that he would not "expect [the process to select appropriate protective film] to be difficult." Tr. (Jones) at 463:15–18; *see also id.* at 472:5–7 (testifying that a manufacturer can select an appropriate supplier for its protective film). Indeed, Mr. Xiong admitted that the protective film was an existing product. *See* Tr. (Xiong) at 139:16–19. Vego Garden's expert, Dr. Beaman, also confirmed that Vego Garden's protective film was available on the open market. *See* Tr. (Beaman) at 413:20–414:6. Respondents have presented persuasive evidence rebutting Vego Garden's argument that finding a suitable protective film is not readily ascertainable.

Vego Garden has not shown that raised metal garden beds or their shipping conditions are so different from other products that the selection of an appropriate protective film would have particular issues or problems such that such selection would not be readily ascertainable by others.

Based on the record evidence, I find that this factor weighs heavily against finding a protectable trade secret.

7. Conclusion

The evidence demonstrates that Vego Garden took steps to protect its protective film trade secret within Vego Garden (Factor 2), took steps to protect its protective film trade secret outside of Vego Garden (Factor 3), and expended money and effort in developing the trade secret (Factor 5). However, the evidence also supports that the trade secret was known outside Vego Garden (Factor 1), had little to no value (Factor 4), and was readily ascertainable (Factor 6). Considered as a whole, the evidence supports that Vego Garden expended time and money and protected the confidentiality of information that was known to others, namely, how to select a protective film for use in circumstances not dissimilar from other metal products subject to the rigors of manufacture, shipping, and storage. Balancing the evidence relating to the six *Sausage Casings* factors, I find that Vego Garden's protective film trade secret is not a protectable trade secret.

E. The Asserted Bending Machine Trade Secret

Vego Garden's third asserted trade secret relates to improvements in the machinery used to generate the bent corner panels in its raised garden beds, where bending the metal is complicated by the corrugated nature of the metal panels. Complainant Post-Hearing Br. at 13–14 and 16–17.

1. Extent the Trade Secret Was Known Outside Vego Garden

Vego Garden acknowledges that the subject matter of its bending machine trade secret became public when it was published in Chinese Patent Application CN 214719610U on November 16, 2021. Complainant Post-Hearing Br. at 14; *see also* JX-0021. Before that publication, Vego Garden contends that its bending machine trade secret was not known outside of Vego Garden. Complainant Post-Hearing Br. at 21.

As recognized by Respondents, Vego Garden has an "affiliate in China named Foshan Baoshuo Intelligent Equipment Manufacturing Co., Ltd. (Baoshuo)." Respondents Post-Hearing Br. at 4; *see also id.* at 6 and 20. Vego Garden states that it shared the details of its bending machine with its affiliate Baoshuo, which manufactured the bending machine that Shun Chuen uses to manufacture Vego Garden's raised metal garden beds. *See* Tr. (Xiong) at 51:8–10, 205:8–15.[16] Other than Baoshuo, Vego Garden contends that it only disclosed the information in its bending machine trade secret to its manufacturing partner Shun Chuen. Mr. Xiong testified as follows:

> Q. Before the Foshan Baoshuo, FB, patent application was published, was the design of the bending machine known to the public?
>
> A. It's not.
>
> Q. Did Vego tell anyone about the design of the bending machine other than [Foshan Baoshuo] and [Shun Chuen]?
>
> A. No.

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[16] Respondents contend that deposition testimony of Mr. Xiong that he "worked with a factory and come up with the final design" is inconsistent with Vego Garden having developed the bending machine trade secret. Respondents Post-Hearing Resp. Br. at 18. Mr. Xiong's deposition transcript is not in the record and Respondents did not confront him with any supposedly inconsistent testimony at the hearing. In addition, the evidence supports that Vego Garden came up with the bending machine design improvements, which were then implemented by Baoshuo in its machine. Tr. (Xiong) at 66:14–67:6, 67:17–21.

Tr. (Xiong) at 74:16–22; *see also* SX-0005C.007–008. Mr. Xiong also testified that Foshan Nahong, Shun Chuen's metal material provider, also had access to its bending machine. Tr. (Xiong) at 67:7–16.

Respondents argue that Vego Garden's bending machine trade secret was known outside Vego Garden because Green Giant purchased its bending machine from Dongguan Haosheng Automation Equipment Technology Co., Ltd. (Haosheng). *See* Respondents Post-Hearing Br. at 19–20, *citing* JX-0001. Mr. Lu admitted, however, that the roller forming operation in the bending machine Green Giant purchased from Haosheng was different from a standard metal bending machine, stating:

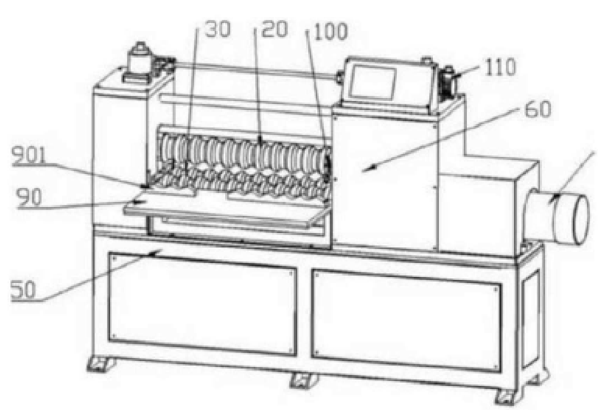
> Q. Is it correct that shortly after [Shun Chuen] dumped the Nahong products that you sold them, you ordered a bending machine that was the same as [Shun Chuen]'s bending machine?
>
> A. All the bending machines available in the market are more or less the same. So if you insist on that the bending machine is the same as [Shun Chuen]'s, then it's – [Shun Chuen] is also getting one of the available machines or equipment on the market.
>
> Because all these bending machines available on the markets are pretty much standard, and, like I said, it is a very well established, an industry already. So most of the machines are the same. And the only difference is the beginning, where the roller, the forming roller is a bit different. That's the only difference.

Tr. (Lu) at 384:18–385:6.

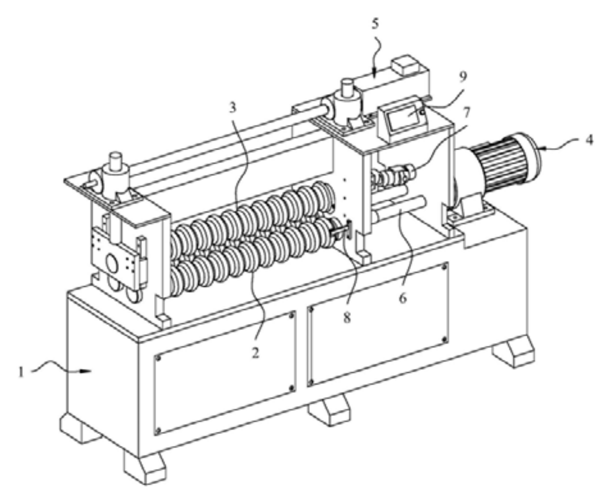
In addition, Mr. Lu testified that it was only after he told Haosheng what Green Giant needed in a bending machine was Haosheng able to "go back and do it themselves." CX-0500 (Lu Dep.) at 87:8–15. The evidence thus supports that Green Giant did not order a "standard" bending machine from Haosheng and that Green Giant's purchase of a bending machine from Haosheng does not support that Vego Garden's bending machine trade secret was known outside of Vego Garden.

Further, supporting that Haosheng's bending machine was not standard, the evidence shows that Green Giant filed a patent application for its bending machine on November 8, 2021. *See* JX-0009. Contrary to Respondents' argument that all bending machines are "more or less the same," the evidence shows that Green Giant's bending machine was not a standard bending machine. Moreover, Green Giant filed its patent application after it recruited Mr. Yu to advise Green Giant on manufacturing issues. *See* CX-0037 at Nos. 70–74; Tr. (Xiong) at 72:14–73:17, supporting that Green Giant's machine was based on information it learned from Mr. Yu.

In addition, the evidence shows that unique features of Vego Garden's bending machine (detailed in JX-0021) are like the features in the bending machine that Green Giant later sought to patent. A representative image from JX-0009, Green Giant's patent application filed on November 8, 2021, is reproduced below (left), alongside an image from Vego Garden's patent application, filed on May 27, 2021 (by its affiliate Baoshuo) (JX-0021) (right):



JX-0009 at Fig. 1 (Green Giant)



JX-0021 at 5 (Vego Garden/Baoshuo)

Vego Garden's expert, Dr. Beaman, testified that the machine shown in JX-0021 and the machine described in JX-0009 "look like basically the same product. They're very, very similar." Tr. (Beaman) at 406:16–21. Dr. Beaman also reviewed a video of Vego Garden's bending machine and confirmed that there were no significant differences between the machine depicted in JX-0009 and Vego Garden's bending machine. *See id.* (discussing CX-0060). In addition, a comparison of the patent documents reveals that both are directed to improvements in the forming roller configuration and automatically adjusting the roller configuration, exactly what Mr. Lu conceded made Green Giant's machine different from "standard" bending machines and what Vego Garden contends distinguishes its bending machine trade secret from earlier bending machine technology. *See* JX-0021 at [0001] – [0011] and JX-0009 at [0002], [0012], and [0027] (similar patent disclosures). In addition, Vego Garden presented evidence that its roller configuration and automation were benefits of its bending machine trade secret. Complainant Post-Hearing Br. at 13–14.

Respondents assert that "[c]ontrary to Complainant's allegation of 'new machine,' Complainant's expert witness also testified the existence [sic] of 'some prior-art out there about metal-bending machines' which further supports the notion that the metal bending machine is not something innovative." Respondents Post-Hearing Br. at 18, *citing* Tr. (Beaman) at 412:18–21. The testimony from Vego Garden's expert, however, is opposite to what Respondents represent. In the portion of testimony cited by Respondents, Vego Garden's expert makes the point that the prior art bending machines had to manually adjust. Automatic adjustment is identified by Vego Garden as part of its bending machine trade secret. Complainant Post-Hearing Br. at 14.

The evidence supports that Vego Garden's bending machine trade secret was not known outside of Vego Garden before the publication of its patent application in November 2021.

2. Extent the Trade Secret Was Known Inside Vego Garden

This is addressed in section V.C.2. The evidence supports that Vego Garden has taken appropriate steps to guard its bending machine trade secret information within the company.

3. Steps Taken by Vego Garden to Protect the Trade Secret

Vego Garden states that it only disclosed its bending machine trade secret to Shun Chuen and Baoshuo. Tr. (Xiong) at 74:16–22. The confidentiality obligations between Vego Garden and Shun Chuen are addressed in section V.C.3; *see also* JX-0020. Vego Garden states that Foshan Nahong also had access to its bending machine. Tr. (Xiong) at 67:7–16. The confidentiality obligations between Shun Chuen and Foshan Nahong are addressed in section VI.B.2.a; *see also* JX-0014C. In addition, Mr. Xiong testified that there was an understanding of confidentiality between Vego Garden and Foshan Nahong. Tr. (Xiong) at 71:3–20.

Respondents contend that Vego Garden "did not produce evidence or testimony regarding Baoshuo's internal procedure in protecting the alleged trade secrets." Respondents Post-Hearing Br. at 20. Respondents recognize, however, that Baoshuo is an affiliate company of Vego Garden. Respondents Post-Hearing Br. at 4, 6, and 20. That type of relationship supports a confidentiality obligation between Vego Garden and Baoshuo. *Expediters Int'l of Washington, Inc. v. Direct Line Cargo Mgmt. Servs., Inc.*, 995 F. Supp. 468, 481–82 (D.N.J. 1998); *see also* Restatement (Third) of Unfair Competition § 41.

In addition, the evidence shows that Vego Garden authorized Baoshuo to seek patent protection for its bending machine, Tr. (Xiong) at 67:17–21, and Baoshuo is in fact listed as the patentee. JX-0021 at 1. Given its interest in the patent, Baoshuo would have an interest in maintaining the confidentiality of the bending machine design until publication of the patent document. *See Timely Products Corp. v. Arron*, 523 F.2d 288, 302–03 (2d Cir. 1975) ("Arron's relationship to Costanzo was one of mutual trust and confidence which imposed upon him the implied obligation not to subvert that policy.").

Further, the size and sophistication of the parties supports a confidential relationship between Vego Garden and Baoshuo. Tr. (Xiong) 200:19–201:4 (Vego Garden is a small start-up company); and 51:8–13 (Baoshuo makes the bending machine for Vego Garden's manufacturer). *See Learning Curve Toys*, 342 F.3d at 726 ("[A]s part of the reasonableness inquiry, the jury could have considered the size and sophistication of the parties, as well as the relevant industry.").

Respondents also contend that because various documents asserted to relate to Vego Garden's machine trade secret are not labeled as confidential, Vego Garden did not take adequate steps to protect its confidential information. Respondents Post-Hearing Br. at 20. These issues are addressed in sections V.C.3 and V.E.1.

The evidence supports that Vego Garden took reasonable precautions to protect its bending machine trade secret.

4. Value of the Trade Secret to Vego Garden and Competitors

In discussing the value of its bending machine trade secret, Vego Garden argues that "Mr. Xiong's new bending machine design significantly increased output, consistency, and quality." Complainant Post-Hearing Br. at 25, *citing* Tr. (Xiong) at 63:9–64:1. The Staff agrees that Vego Garden's bending machine trade secret derived value by providing manufacturing efficiencies that were not generally known throughout the wider industry. Staff Post-Hearing Br. at 29–30.

The evidence shows that Vego Garden's bending machine design improvements afforded a competitive advantage to Vego Garden. Tr. (Xiong) at 62:14–64:1, 66:14–67:6; and Tr. (Beaman) at 408:3–9. As Mr. Xiong testified:

Q. Is the new machine faster or slower than the old system in terms of output?

A. It is a lot faster.

Q. And is the new machine better or worse than the previous machines in terms of consistency and quality of the product that comes out?

A. Yeah. It has a lot of improvement because we consolidated the three machines into one machine. So you see the time from – in old way, three machines, you have to take off the panels, take it out to put into a second machine and take it out and put into a third machine in order to bend it. In the new machine you basically put the panels into just one machine and it's going to bend into the final sheet. So this will save the time where you put it into different machine. It avoids scratches and damage and it also has a much better precision and a much higher capacity. You save the people, the labor, and also the time to switch from different machines.

Tr. (Xiong) at 63:9–64:1. Dr. Beaman confirmed Mr. Xiong's testimony. *See* Tr. (Beaman) at 408:3–9 ("[T]here's value certainly in the machine that is now capable of much quicker construction or manufacture of curved tiles."); *see also id.* at 415:20-416:3. The evidence further shows that Vego Garden's bending machinery provides significant economic value by consolidating three machines into one while increasing quality and consistency. Tr. (Xiong) at 66:14–67:6. In particular, Vego Garden's bending machine allows Vego Garden to produce the curved panels in less time, while reducing the amount of labor required. *Id.* at 63:15–64:1.

Respondents argue that Vego Garden's bending machine technology is generally known in the industry, and therefore "has no economic value." Respondents Post-Hearing Resp. Br. at 19. As discussed above and in section V.E.1, the evidence supports that Vego Garden's bending machine technology was not known before the publication of its patent application.

Based on the record evidence, I find that this factor weighs in favor of a protectable trade secret.

5. Amount of Effort or Money Expended in Development

Vego Garden presented evidence that, during 2021, it expended over $54,000 in direct research and development costs related to its bending machine, Tr. (Xiong) at 29:23–25, and that it took approximately a year to design its machine. Tr. (Xiong) at 66:14–67:6. Additionally, Vego Garden's witness explained that the total costs associated with research and development of its bending machine were likely around $300,000. *Id.* at 30:18–31:4. Vego Garden has thus presented evidence demonstrating its investments in research and development of its bending machine trade secret, which Respondents failed to rebut.

Respondents argue that "since Vego shared employees with Worldlink and G&A Partners, it is not clear how many hours these shared employees were devoted to Vego, and in these hours devoted to Vego, how many hours were devoted to research and development relevant to the alleged metal-forming machine." Respondents Post-Hearing Br. at 20–21. As noted, Respondents' arguments regarding both Worldlink and G&A Partners are unpersuasive. *See, e.g.*, Tr. (Xiong) at 25:12–22, 94:7–19; *see also id.* at 95:5–12; JX-0016 at 2; *see also* JX-0018 at 2. *See* section V.C.2.

Based on the record evidence, I find that this factor weighs in favor of finding a protectable trade secret.

6. Extent the Trade Secret Is Readily Ascertainable

Respondents contend that the evidence shows that the bending machine trade secret can be easily duplicated by others. *See* Respondents Post-Hearing Br. at 19–20. In particular, Respondents allege that Green Giant's ability to purchase its own bending machine from Haosheng demonstrates that bending machines are generally known in the industry. *See id.*

Mr. Lu's testimony that the bending machine that Green Giant ordered from Haosheng had a specific roller configuration and could not be provided by Haosheng without information from him supports that the bending machine Green Giant needed to manufacture raised metal garden bed products that would compete with Vego Garden's products was not readily ascertainable. Tr. (Lu) at 384:18–385:6; and CX-0500 (Lu Dep.) at 87:8–15. In addition, Green Giant's patent application cuts against its argument that the Vego Garden bending machine trade secret was generally known or readily ascertainable in the industry. As noted, Green Giant's patent application is directed to a machine that is "very, very similar" to that described in the patent application that Vego Garden filed in cooperation with Baoshuo. Tr. (Beaman) at 406:16–21; *compare* JX-0009 *with* JX-0021. Indeed, in filing its patent application, Green Giant is effectively conceding that the technology behind the bending machine is innovative and not generally known in the industry. In addition, the similarity in the patent disclosures and the timing of Green Giant's patent application, after it had recruited Mr. Yu to assist with manufacturing issues, supports that Green Giant obtained the information in its patent application from Vego Garden.

Vego Garden also presented persuasive evidence that its bending machine was unique in the industry and consolidated processes that previously would require three machines. Tr. (Xiong) at 62:14–63:8. Dr. Beaman testified that Vego Garden's bending machine reduced capital costs, and contrasted Vego Garden's machine with prior art metal-bending machines requiring manual readjustment. *See* Tr. (Beaman) at 412:18–413:2. Further, and as noted above, Vego Garden, through its affiliate Baoshuo, sought patent protection for its new machine. Tr. (Xiong) at 67:17–21; JX-0021.

The record evidence thus supports that Vego Garden's bending machine trade secret was not readily ascertainable. Based on the record evidence, I find that this factor weighs in favor of finding a protectable trade secret.

7. Conclusion

The evidence relating to each of the *Sausage Casings* factors supports that Vego Garden's bending machine trade secret is a protectable trade secret. I accordingly find that Vego Garden's bending machine trade secret is a protectable trade secret.

VI. MISAPPROPRIATION OF THE ASSERTED TRADE SECRETS

Having found protectable trade secrets, I next consider whether there has been misappropriation of them. *Crawler Cranes*, Inv. No. 337-TA-887, Comm'n Op. at 34. This involves consideration of ownership, confidential disclosure or wrongful acquisition, and use. *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 10, *citing Sausage Casings,* Inv. Nos. 337-TA-148/169, Initial Determination.

A. Ownership

"[O]ne 'owns' a trade secret when one knows of it, as long as it remains a secret." *Crawler Cranes*, Inv. No. 337-TA-887, Initial Determination at 134, n.41. A trade secret may be transferred; however, "its continuing secrecy provides the value, and any general disclosure destroys the value." *Id.*, *citing DTM Research, LLC v. AT&T Corp.,* 245 F.3d 327, 331 (4th Cir. 2001).

Vego Garden asserts that it owns each of the asserted trade secrets because it developed them and has consistently used them. Complainant Post-Hearing Br. at 10–15 and 21. While Respondents dispute that Vego Garden "identif[ied] the alleged trade secrets with sufficient particularity," they do not appear to dispute that Vego Garden owns or possesses a proprietary interest in the asserted trade secrets. Respondents Post-Hearing Resp. Br. at 20; *see also* Staff Post-Hearing Resp. Br. at 9.[17] In addition, the evidence supports that Vego Garden developed, used, and is using its asserted trade secrets. Tr. (Xiong) at 57:24–58:9 (8-inch product development trade secret); Tr. (Xiong) at 60:3–61:11 (protective film trade secret); and Tr. (Xiong) at 62:14–63:8 (bending machine trade secret).

[17] As explained in section V.A, Vego Garden has sufficiently identified its trade secrets.

I therefore find that, to the extent that protectable trade secrets are found to exist, the evidence supports that Vego Garden owns the asserted trade secrets.

B. Wrongful Disclosure or Acquisition

Misappropriation requires evidence that the "complainant disclosed the trade secret to respondent while in a confidential relationship or that the respondent wrongfully took the trade secret by unfair means." *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 10. A taking is wrongful if, for instance, the respondent used a trade secret acquired by an employee under circumstances giving rise to a secrecy obligation. *See id.* at 41–42, affirming reasoning in the initial determination that Respondent "wrongfully took Complainant's trade secrets by unfair means" through copying information obtained by the complainant's former employees under confidentiality agreements, *Rubber Resins*, Inv. No. 337-TA-849, Initial Determination at 406.

Vego Garden contends that its trade secret information was inappropriately acquired by Mr. Lu, who at the relevant time worked for Foshan Nahong, a supplier of Vego Garden's manufacturer Shun Chuen and is now the CEO of Green Giant, from Mr. Yu, an engineer at Shun Chuen, the manufacturer of Vego Garden's raised metal garden beds. Complainant Post-Hearing Br. at 28; *see also* Staff Post-Hearing Br. at 36.

As an initial matter, Respondents contend that Vego Garden "attempted to add new theory of Respondent Green Giant's CEO, Mr. Lu's prior involvement at Foshang [sic, Foshan] Nahong" to its misappropriation allegation but that Vego Garden "never disclosed such new theory in its pre-hearing brief." Respondents' Post-Hearing Br. at 3; *see also* id. at 20. This argument is baseless. In its pre-hearing brief, Vego Garden specifically identified the central role of Mr. Lu and Foshan Nahong to its trade secret misappropriation allegations. Complainant Pre-Hearing Br. at 19–21; *see also* Staff Post-Hearing Resp. Br. at 9, n.5. Respondents' attempt to distance Mr. Lu from Foshan Nahong is meritless. In its Counterclaim, Green Giant states that Mr. Lu worked at Foshan Nahong. Counterclaim, ¶ 7.

Before addressing whether trade secret information was wrongfully disclosed or acquired, I address several issues raised by Respondents regarding whether information from Shun Chuen was properly considered.

1. Materials from Shun Chuen Were Properly Considered

In arguing that its trade secrets were misappropriated, Vego Garden relies on information obtained from its manufacturing partner, Shun Chuen. Complainant Post-Hearing Br. at 28–32 (relying on, *inter alia*, JX-0014C, JX-0015C). Respondents characterize documents from Shun Chuen as "unequivocally problematic," contend that they should not be considered, and assert that Vego Garden should be sanctioned for their use at the hearing. Respondents Post-Hearing Resp. Br. at 23–25.

I agree with the Staff that "Respondents waived any arguments or objections concerning the authenticity and reliability" of JX-0014C and JX-0015C "because Respondents failed to timely object to such documents prior to or during the evidentiary hearing and/or failed to fully address such issues" in their initial post-hearing brief. Staff Post-Hearing Resp. Br. at 9–10. Respondents did not object to the introduction into evidence of JX-0014C or JX-0015C at the evidentiary hearing and in fact relied on those documents themselves. Tr. (Xiong) at 71:21–72:7 (Vego Garden introducing JX-0014C without objection), 154:19–156:13 (Respondents questioning Mr. Xiong about JX-0014C), and 157:6–158:4 (Respondents introducing JX-0015C). Indeed, Respondents adduced the following testimony from Mr. Xiong regarding JX-0014C, which is a July 2019 Confidentiality Agreement between Shun Chuen and Foshan Nahong:

Q. So is this a true and correct copy of the agreement that it alleges to be?

A. It is true document.

Q. How do you know?

A. Because I asked Shunchuen to produce for me and they did their work, and I trust them they're going to do their -- they don't have to falsify anything, to make anything fake of anything.

Tr. (Xiong) at 156:6–13; *see also* Tr. (Xiong) at 157:6–157:8 (as to JX-0015C). Moreover, since JX-0014C and JX-0015C are *joint* exhibits, Respondents are not in a position to now object to their introduction into evidence.[18]

Respondents also waived any argument that no documents from Shun Chuen, including JX-0014C and JX-0015C, should have been admitted into evidence because they did not make that argument in their initial post-hearing brief. *See* Order No. 14 (Ground Rules) at Ground Rule 14.1 ("Any issue for which a party has the burden of proof that is not addressed in detail in the initial post-hearing initial brief shall be deemed abandoned or withdrawn.") Respondents did not argue that Shun Chuen documents, including JX-0014C and JX-0015C should not have been admitted into evidence.[19] *See* Respondents Post-Hearing Br. at 22.

In arguing that Shun Chuen documents should not be considered, Respondents contend that "[w]ithout a person who has direct knowledge from [Shun Chuen] to testify, Respondents had no opportunity to cross-examine anyone with direct knowledge of the [Shun Chuen] documents, or who prepared the purported confidentiality agreement that was purportedly signed by Mr. Lu."

[18] To the extent Respondents now object to CX-0014, a Shun Chuen Employee Handbook, such objection was waived because it was not raised at the evidentiary hearing. Tr. (Xiong) at 72:8–13 (introducing CX-0014 without objection). The same is true for CX-0007C, identified as an Order Contract, and CX-0008C, identified as a Contract. Any objections to these documents were waived because they were not raised at the evidentiary hearing. Tr. (Xiong) at 79:1–81:8 (CX-0007C) and 68:13–22 (CX-0008C).

[19] *See also* Order No. 25 (May 19, 2023) at 15–17 (EDIS Doc. ID 797935) (denying Respondents' motion in limine regarding JX-0014C and JX-0015C).

Respondents Post-Hearing Resp. Br. at 24. Mr. Lu, however, testified about JX-0014 and JX-0015 and Respondents had the opportunity to and did elicit testimony from him. *See* Tr. (Lu) at 369:17–372:21.

In addition, the failure to have a witness from Shun Chuen testify at the evidentiary hearing lies squarely with Respondents. Respondents have known from when the Complaint in this investigation was filed that Shun Chuen was involved in Vego Garden's allegations. Indeed, Mr. Yu of Shun Chuen was a central figure in Vego Garden's allegations. As noted in Order No. 16, Respondents knew about Mr. Yu and his potential relevance to this investigation since at least as early as November 3, 2022, when it had access to Confidential Exhibit 1 to the Amended Complaint, which identifies Mr. Yu. EDIS Doc. ID 779976 at Conf. Ex. 1. Mr. Yu was also identified in Vego Garden's December 5 Preliminary Disclosure of Trade Secret and Copyright claims. EDIS Doc. ID 793340 at Conf. Ex. 6, pp. 2, 3, and 5.

Not only did Vego Garden identify Mr. Yu of Shun Chuen, but Green Giant did, too. Mr. Li, Green Giant's corporate deposition designee, testified that he first spoke to Mr. Yu in October or November 2022, EDIS Doc. ID 793216 at Ex. C, p. 15; Green Giant identified Mr. Yu in its December 12 interrogatory responses, EDIS Doc. ID 793340 at Ex. 7, pp. 11–12; and Green Giant identified Mr. Yu in its December 2022 counterclaim, EDIS Doc. ID 786929, ¶¶ 12, 13, 15, 16, 26, 33, and 37.

Despite the early and repeated identifications of Mr. Yu, Respondents belatedly attempted to add him to their witness list. *See* Order No. 16 (Apr. 3, 2023) (EDIS Doc. ID 794316) (denying Respondents' motion to amend their witness list to identify Mr. Yu as belatedly filed after the close of fact discovery and as prejudicial to both Vego Garden and the Staff).

The failure to have a witness from Shun Chuen testify at the evidentiary hearing lies with Respondents and does not provide a basis to exclude any Shun Chuen documents.

2. The Confidentiality Obligations of Mr. Lu and Mr. Yu

Vego Garden contends that Mr. Lu, who worked for Foshan Nahong, and Mr. Yu, who worked for Shun Chuen, were subject to confidentiality obligations, which precluded them from disclosing and using Vego Garden's trade secret information. Complainant Post-Hearing Br. at 7–8. The Staff agrees. Staff Post-Hearing Br. at 36–37.

As an initial matter, Respondents purport to identify entities that *do not* have confidential relationships to suggest that there was no disclosure of information subject to a confidentiality obligation. Respondents Post-Hearing Br. at 21–22. Specifically, Respondents contend that there is no confidential relationship between Vego Garden and Green Giant or Utopban. *Id*. at 21.[20] Respondents also contend that Green Giant (and as the general manager of Green Giant, Mr. Lu) never entered into confidential relationships with: (1) Vego Garden's manufacturer, Shun Chuen; (2) Mr. Yu; and (3) Foshan Nahong. *Id*. I agree with the Staff that while these assertions may be true, they are not relevant. Staff Post-Hearing Br. at 35. The issue instead, is whether Mr. Lu, as an employee of Foshan Nahong, and Mr. Yu, as an employee of Shun Chuen, were subject to confidentiality obligations precluding their disclosure or acquisition of Vego Garden's trade secret information.

For the reasons detailed below, the evidence demonstrates that confidentiality obligations precluded the disclosure and acquisition of Vego Garden's trade secret information.

[20] Respondents contend that: (1) "there is no confidential relationship between Complainant and Respondents;" (2) "Green Giant never entered into confidentiality relationship [sic] with Vego;" and (3) there are "no confidentiality obligations or relationships that existed between Vego and Respondents."

a) The Confidentiality Agreements Between Shun Chuen and Foshan Nahong Imposed Confidentiality Obligations on Mr. Lu and Were Not Forged

As an employee of Foshan Nahong, Vego Garden contends that Mr. Lu was subject to confidentiality agreements between Shun Chuen and Foshan Nahong. Complainant Post-Hearing Br. at 8, *citing* JX-0014C and JX-0015C. According to the terms of a Confidentiality Agreement between Shun Chuen and Foshan Nahong, dated July 2019, (JX-0014C), "all business or other related requests by [Shun Chuen] or [Foshan Nahong] . . . shall constitute and continue to become confidential material, ..." JX-0014C. This document further states that "[w]ithout the written consent of the authorized representative of [Shun Chuen], such confidential data shall not be copied, and the information contained in such confidential data shall not be disclosed to any individual, enterprise, or company other than the parties under the Agreement." *Id.*, ¶ 6. According to the terms of a Purchase Contract between Shun Chuen and Foshan Nahong, dated July 2019, (JX-0015C), [redacted] JX-0015C at 8.

Respondents do not dispute the content of the confidentiality agreements, JX-0014C and JX-0015C, but contend that Mr. Lu's signatures were forged. Respondents Post-Hearing Br. at 22; and Respondents Post-Hearing Resp. at 4, n.2 and 20–21, n.8. The Staff asserts that Respondents have not demonstrated that JX-0014C or JX-0015C were forged. Staff Post-Hearing Br. at 35.

Under Ground Rule 12.3.1, "All documents that appear to be regular on their face shall be deemed authentic unless it is shown by particularized evidence that a document is a forgery or is not what it purports to be." Order No. 14 (Ground Rules). For the reasons explained below, I find that Respondents have not provided such evidence.

Mr. Lu testified that the signatures on JX-0014C and JX-0015C are not his. Respondents Post-Hearing Br. at 22, *citing* Tr. (Lu) at 370:16–23 and 371:4–23. The record evidence, however, demonstrates that Mr. Lu is not credible.

For example, when asked by his counsel whether he was "familiar with the company called Foshan Nahong," Mr. Lu replied that he "collaborated with this company before on a few projects." When asked to "tell us a little bit more about your relationship with Foshan Nahong," Mr. Lu testified that "we simply had some business deals together. That's it." Tr. (Lu) at 335:3–13. Given that Mr. Lu worked for Foshan Nahong and is at the center of Vego Garden's allegations, his attempt to minimize his involvement with Foshan Nahong demonstrates that he is not credible.

As another example, the evidence demonstrates that Mr. Xiong and Mr. Lu engaged in an extensive text chat when Mr. Lu was employed by Foshan Nahong and even after he started Green Giant as a competitor to Vego Garden. JX-0004. At the hearing, Mr. Lu conceded that despite continuing communications with Mr. Xiong, he never told him that he was the owner of Green Giant:

> Q. And in your chat, even as late as November '21, when Robert [Xiong] had discovered from Mr. [Xie] that Green Giant was selling raised garden beds identical to Vego's, and when you were supplying Green Giant, you never confessed you were the owner of Green Giant, right?
>
> A. Correct.

Tr. (Lu) at 388:19–23. Confirming Mr. Lu's deception, at the end of their text chat, Mr. Xiong stated: "How stupid of me to trust you blindly." JX-0004 at 36. Mr. Xiong testified that he did not learn that Mr. Lu was the founder and general manager of Green Giant until after this investigation was instituted. Tr. (Xiong) at 203:8–205:2.

In attempting to explain his failure to tell Mr. Xiong that he had founded a competitor company, Mr. Lu testified that because his exchanges with Mr. Xiong were "about the technological processes and the know-hows" and "not really concerning business side of things" and because Mr. Xiong and Shun Chuen have a relationship, "it would be unethical for me to bring up anything in terms of business. Tr. (Lu) at 389:5–10. Right after Mr. Lu testified that it would be unethical of him to tell Mr. Xiong that he had started a competitor company, instead leaving Mr. Xiong to understand that the relationships between Vego Garden, Shun Chuen, and Foshan Nahong remained unchanged, Mr. Lu testified that Mr. Xiong was unethical because Mr. Xiong gave Mr. Lu advance notice of Vego Garden's intent to change materials for its raised metal garden beds. Tr. (Lu) at 389:11–390:11.

Given that Mr. Lu was equivocal at the hearing about his relationship with Foshan Nahong, withheld essential information from Mr. Xiong (that he had founded a competitor company), testified that it would have been unethical for him to be honest with Mr. Xiong, and then, without apparent basis, charged Mr. Xiong with being unethical, I find that Mr. Lu has shown himself to be untrustworthy and to lack credibility. I therefore do not credit Mr. Lu's testimony that his signatures were forged on JX-0014 and JX-0015.

Respondents also rely on the opinion of their handwriting expert, Mr. Bart Baggett, in asserting that Mr. Lu's signatures on JX-0014C and JX-0015C were forged. Respondents Post-Hearing Br. at 22, *citing* Tr. (Baggett) at 252:15–25. Mr. Baggett compared what were represented as five known signatures of Mr. Lu with the signatures identified as Mr. Lu's in JX-0014C and JX-0015C. When he did so, the information surrounding the known signatures was redacted, so that Mr. Baggett did not know the context of the known signatures when offering his opinion. *See* Vego Garden Motion in Limine No. 4 at Ex. 1 (EDIS Doc. ID 795737). While Respondents contended that content of the redactions was personal and had "no relevance or bearings to the merits of the case," EDIS Doc. ID 796138 at 5, I ordered the production of that information if they intended to rely on Mr. Lu's five known signatures. Order No. 25 at 5–6. Respondents did so. *See* RX-0090C.

With this background, Mr. Baggett testified at the hearing as follows:

> Q. And you compared the known signatures with the questioned -- purported signatures on the questioned document, correct?
>
> A. I did, yes, sir.
>
> Q. So what is your opinion when you did a comparison between the known signatures and the question -- the purported signatures on the questioned document?
>
> A. The person who wrote the known signatures is not the author of the person who signed Mr. Lu's name on those five questioned documents or that one questioned document with his signature.

Tr. (Baggett) at 252:15–25.

Complainant's expert, Dr. Linton Mohammed, testified that to "exclude a writer if there are dissimilarities between questioned and known signatures you have to account for almost everything that can account for those dissimilarities," including "age, illness, health, drugs, medication, writing conditions, writing instruments, were they sitting, were they standing, alcohol is another feature." Tr. (Mohammed) at 275:9–17. Dr. Mohammed testified that a person's signature can also vary depending on the type of document being signed. For example, a person's signature may be quite different when signing for a FedEx package than when signing a last will and testament a few hours later in an attorney's office. *Id.* at 276:24–277:10. To account for these issues, Dr. Linton testified that a minimum of twenty known signatures is necessary, and that number can be as high as 300. Dr. Mohammed testified that five known signatures is not enough to exclude a questioned signature. *Id.* at 275:19–22, 276:12–23, and 278:3–8. Dr. Mohammed also testified that he did not perform a signature analysis because the five known exemplars were not sufficient. *Id.* at 283:4–10.

Based on the record evidence, I find that Mr. Baggett's methodology was not reliable. I therefore give his opinion no weight. While Mr. Baggett testified regarding his comparison of the five known samples and the signatures on JX-0014C and JX-0015C, Tr. (Baggett) at 244:21–257:5 and 257:14–260:11, he did not provide any explanation of what may have accounted for dissimilarities in the condition of the writer or the circumstances of the signature, as Dr. Mohammed credibly testified was necessary, thus rendering his opinion unreliable. And while Mr. Baggett mentioned 27 known exemplars of Mr. Lu's signature, Tr. (Baggett) at 251:17–18, the additional 22 (from the five in his expert report) are not in the record. *See* RX-0090C. Mr. Baggett's use of five known exemplars as a comparison to the signatures in JX-0014C and JX-0015C was insufficient for him to render a reliable opinion.

In their post-hearing responsive brief, Respondents ask: "If Mr. Lu did sign any confidentiality agreement or if any of these signatures are truly signed by Mr. Lu, why bother to find a handwriting expert to do the examination of these signatures?" Respondents Post-Hearing Resp. Br. at 22. The correct question, however, is whether Respondents have presented particularized, credible, or reliable evidence that JX-0014C and JX-0015C are forgeries or are not what they purport to be. *See* Ground Rule 12.3.1. They have not. I find that Mr. Lu signed both JX-0014C and JX-0015C and was subject to the confidentiality obligations between Foshan Nahong and Shun Chuen.

b) The Shun Chuen Employee Handbook Imposed Confidentiality Obligations on Mr. Yu

The evidence shows that as an employee of Shun Chuen, Mr. Yu was subject to the confidentiality provisions of the Shun Chuen employee handbook, which states:

> Article 48 All employees of the company have an obligation to keep the company's business secrets. Employees must meticulously keep confidential the documents in their possession and shall comply with the company's confidentiality policy. No employee may disclose any payroll and other technical information of the company or ask about it (including design drawings, production processes, customer information, and information about contracts). No photography shall be allowed without the consent of the company.
>
> Article 49 No employee of the company shall be allowed to read any documents, letters, accounting books, or financial statements beyond their authorization, or disclose any documents under their management to others. He/she may not disclose any equivalent confidential information of the company to the outside. Any letters and mail sent in the name of the company must be approved by the relevant management. No employee shall ask for, print, or copy any materials of the other departments without the approval of the department manager or the authorization of the General Manager.

CX-0014 (Shun Chuen Employee Handbook) at Articles 48–49.

Respondents argue that there is no evidence showing that earlier versions of CX-0014 (which indicates on its face that it is the ninth version) contained similar confidentiality provisions. Respondents Post-Hearing Br. at 22–23. As noted by the Staff, however, the revision dates identified in CX-0014 show that Articles 48 and 49 were not revised for the time between when Vego Garden began working with Shun Chuen and the present. CX-0014 (revisions in December 2020, March 2021, and July 2021); and Tr. (Xiong) at 202:25–203:5 (Vego Garden began working with Shun Chuen in the later part of 2020). Respondents suggest that Articles 48 and 49 could have been different before December 2020. Respondents Post-Hearing Br. at 22–23; and Respondents Post-Hearing Resp. Br. at 24. Whether that is so is irrelevant, however, because the evidence supports that Mr. Yu was employed by Shun Chuen after the employee handbook with Articles 48 and 49 as recited in CX-0004 was issued, and thus would have been subject to them. *See* CX-0015 (employee sign-in); *see also* Tr. (Xiong) at 49:9–12 (testifying that Mr. Yu was Vego Garden's point of contact at Shun Chuen).

Accordingly, the evidence demonstrates that Mr. Yu had confidentiality obligations as an employee of Shun Chuen.

c) Respondents' Evidence and Arguments That There Were No Confidentiality Obligations Are Not Persuasive

In attempting to refute Mr. Yu's confidentiality obligations to Shun Chuen, Respondents rely on testimony of Mr. Lu that he was "sure that there is no confidentiality agreement signed or obligation between Mr. Yu and ShunChuen because ShunChuen was not generous with pay and that ShunChuen refused to have the employee sign confidentiality clause because it would cost them extra to do so." Respondents Post-Hearing Br. at 23, *citing* Tr. (Lu) 371:24–25 and 372:1–18. In testimony not cited by Respondents, Mr. Lu testified that "last year after I found out about this lawsuit, I asked Yu Xiong again, and he told me that there was nothing confidential or confidentiality obligation between him and Shunchuan." Tr. (Lu) at 372:18–21. Mr. Lu's testimony is, by his own admission, motivated by this litigation, in which he has been a non-credible witness. In addition, Mr. Lu's testimony that Shun Chuen was uninterested in confidentiality is specifically refuted by the written confidentiality agreement between Shun Chuen and Foshan Nahong, JX-0014C, the purchase contract between Shun Chuen and Foshan Nahong, JX-0015C, and the Shun Chuen employee handbook, CX-0014. I find Mr. Lu's testimony regarding Mr. Yu's confidentiality obligations unreliable.

Respondents also point to what they characterize as Mr. Yu's employment agreement with Shun Chuen with the confidentiality and non-compete clauses deleted. Respondents Post-Hearing Br. at 23, *citing* RX-0029C and Tr. (Lu) 372:22–373:4. While Respondents cite to RX-0029C, that document should have been identified by Respondents' counsel as RDX-0029C because it was entered for "identification purposes only." Tr. (Lu) at 373:5–6. Respondents do not point to a particular provision of this agreement that extinguishes a confidentiality obligation on Mr. Yu. Nor, more importantly, do they explain how this document abolishes the confidentiality obligations imposed on Mr. Yu by the Shun Chuen employee handbook.

I find that Respondents' attempts to refute Mr. Yu's confidentiality obligations are unpersuasive and that Mr. Yu had confidentiality obligations based on the Shun Chuen employee handbook as well as based on the confidentiality agreement between Vego Garden and Shun Chuen, JX-0020, and the earlier oral confidentiality agreement between Vego Garden and Shun Chuen. *See* section V.C.3.

3. Wrongful Disclosure or Acquisition by Mr. Lu

Mr. Lu worked for Foshan Nahong, a material supplier to Shun Chuen (Vego Garden's manufacturer). Tr. (Lu) 335:6–22. Mr. Lu testified that a delivery of metal coil for raised metal garden beds was rejected by Vego Garden and Shun Chuen in April 2021, costing him substantial commissions. Tr. (Lu) at 378:17–380:5; 381:1–381:14; 382:16–383:14; *see also* Tr. (Xiong) at 52:2–5. Mr. Lu testified that the metal coil had been prepared for use by Vego Garden according to its colors. *See id.* at 380:12–19. As Mr. Lu testified, after the rejection, there were between "600 to 700 tons of material in [Shun Chuen's] inventory," which put him in a difficult position. *See* Tr. (Lu) at 378:19–381:11 and 380:23–24. Mr. Lu further explained that "a lot of [Foshan Nahong's] cash" was required for ordering the inventory, putting Foshan Nahong in a position where it stood to lose this money after Shun Chuen rejected the metal coil. *See id.* at 379:12–19. Thus, Mr. Lu decided to start Green Giant partly to recoup some of the losses incurred because of the rejection of materials. *See id.* at 379:21-25.

Within three weeks of Vego Garden and Shun Chuen's rejection of the materials, *i.e.,* May 2021, Mr. Lu ordered a first flat panel machine and bending machine under the name of Green Giant. JX-0008C (Roll Forming Machine Technical Scheme), JX-0001 (Purchase Contract dated May 13, 2021), Tr. (Lu) at 383:15–21. By November 2021, Green Giant had developed its raised metal garden bed products. CX-0037 (Xiong-Xie conversation transcript).

The evidence shows that in his work for Foshan Nahong, Mr. Lu visited Shun Chuen "very often" to assist with the Vego Garden raised metal garden bed products. Tr. (Lu) at 378:7–16. In that capacity, Mr. Lu obtained detailed knowledge about of Vego Garden's raised metal garden bed products, including their manufacture. Tr. (Lu) at 378:7-16; Tr. (Xiong) at 52:12–52:17; 62:2–62:13; 67:7–16. He also established a relationship with Mr. Yu. Mr. Xiong testified as follows:

> Q. Do Mr. Yu and Mr. Lu have a relationship?
>
> A. Yes. When [Foshan Nahong] supplied metal material to [Shun Chuen], Mr. Yu and Mr. Lu, they have to communicate a lot. So they basically work together on all these projects.

Tr. (Xiong) at 52:12–15.

The evidence also shows that Mr. Lu had a relationship with Mr. Xiong and through that relationship had access to Vego Garden's trade secret information, including its protective film information, *see* Tr. (Xiong) at 62:2–4, its bending machine, *see id.* at 67:14–16, and other details, *see generally* JX-0004 (WeChat transcript between Mr. Xiong and Mr. Lu). A WeChat conversation between Mr. Xiong and Mr. Lu shows they discussed wide-ranging issues, including the characteristics of paint needed to comply with North American standards, *see id.* at 5–8, and the configuration of connecting rods used in Vego Garden's raised garden beds, *see id.* at 15–16. This evidence demonstrates that Mr. Lu was intimately familiar with Vego Garden's raised metal garden bed product and its trade secret information.

Mr. Lu's relationships with Mr. Yu and Mr. Xiong, because of his employment by Foshan Nahong, gave him access to Vego Garden trade secret information while under a confidentiality obligation. The evidence supports that Mr. Lu leveraged those relationships and used the confidential information he obtained from Mr. Yu and Mr. Xiong to start his competitor company, Green Giant. Mr. Lu was undoubtedly motivated use Vego Garden's trade secret information, after Vego Garden and Shun Chuen's the rejection of materials from Foshan Nahong, his loss of a commission, and the monetary harm to Foshan Nahong. Mr. Lu's deceptive behavior also supports that he misappropriated Vego Garden's trade secret that he obtained while employed by Foshan Nahong. In 2021, after Mr. Lu had founded Green Giant, he continued to represent Foshan Nahong in its dealings with Shun Chuen, and by extension Vego Garden. Tr. (Lu) 388:19-389:10. Mr. Lu never disclosed his relationship with Green Giant to Vego Garden, *id.* at 387:12-14; 388:19-24, and Mr. Xiong did not learn that Mr. Lu was actually a founder and the head of Green Giant until after this investigation was instituted. *See* Tr. (Xiong) at 203:18-205:2. This is despite the fact that Mr. Xiong and Mr. Lu were in regular communication through November of 2021. *See* JX-0004 at 34–36.

The record evidence supports that Mr. Lu wrongfully acquired Vego Garden's trade secret information.

4. Wrongful Disclosure or Acquisition by Mr. Yu

The evidence supports Vego Garden worked closely with Mr. Yu to use its trade secret information in Shun Chuen's manufacture of Vego Garden's raised metal garden bed products. Tr.

(Xiong) at 71:21–73:17 (Mr. Xiong testifying that Mr. Yu was Vego Garden's "point of contact" at Shun Chuen and knew Vego Garden's confidential information); *see also* Staff Post-Hearing Br. at 33. The evidence also supports that Vego Garden's asserted trade secret information was disclosed to Mr. Yu in the context of a confidential relationship. *See, e.g.*, CX-0014; JX-0020; Tr. (Xiong) at 72:8–73:17; *see also* CX-0037 at Nos. 80–85 and section V.C.3.

And while Mr. Lu also had access to Vego Garden's confidential information, he lacked the expertise necessary to produce raised metal garden bed products that would compete with Vego Garden's products. CX-0500 (Lu Dep.) at 37:14–38:16, 22–23. For that reason, Green Giant recruited Mr. Yu to advise Green Giant on manufacturing issues. *See* CX-0037 at Nos. 70–74; Tr. (Xiong) at 72:14–73:17. Mr. Yu worked with Green Giant in June/July 2021 to help resolve issues with the machinery and to provide advice to Green Giant on how to make its raised metal garden bed products. CX-0037 at Nos. 68–75, 80–81.

Mr. Yu knew Mr. Xiong was the owner of Vego Garden, and apparently considered Mr. Xiong a prospective customer for Green Giant, which was looking for customers for its raised metal garden bed products. *See* Tr. (Xiong) at 52:18–53:4. In November 2021, Mr. Yu introduced Mr. Xiong to Mr. Xie, a co-owner of Green Giant. *See id.* When Mr. Yu told Mr. Xiong that Mr. Xie could supply him with "the same garden beds" that Vego Garden was selling, Mr. Xiong was "very shocked." *See id.* at 53:7–11. After this, Mr. Xiong decided to call Mr. Xie. *See id.* at 53:11–12. Mr. Xiong recorded the conversation with Mr. Xie, and a translation of this recording was admitted into evidence as CX-0037.

Respondents contend that CX-0037 should not be considered. Respondents Post-Hearing Resp. Br. at 26.[21,22] Respondents argue that the recording is "problematic, and no reasonable fact finder would find in Complainant's favor solely based on this problematic recording." Respondents Post-Hearing Br. at 23. Respondents in particular argue that it "does not make sense if Mr. Xie is truly the founder of Green Giant purported to be, if this is true, why would Xie accuse the real founder of Green Giant, Mr. Lu stating 'we were tricked by Lu of Nahong, he passed us a whole bunch of all his inventory, we had no choice but work on it now, we were forced.'" *Id.*, *quoting* CX-00037 at No. 23. Until this investigation was instituted, however, Mr. Xiong did not know Mr. Lu had started Green Giant as a competitor to Vego Garden. Tr. (Xiong) at 203:8–205:2. The evidence demonstrates that it was in Green Giant's interest to maintain this deceit so that Mr. Xiong and Vego Garden would continue unabated its relationship with Shun Chuen (and its engineer, Mr. Yu) and Shun Chuen's supplier, Foshan Nahong (and Mr. Lu) so that Mr. Lu could sell the inventory that Vego Garden and Shun Chuen had rejected.

Respondents also contend that CX-0037 is unreliable, stating that "[i]t is undeniably [sic] that Mr. Xie could essentially say whatever he wanted, which could not be afforded the presumption of reliability." Respondents Post-Hearing Resp. Br. at 26, *citing United States v. Pazsint*, 703 F.2d 420, 424 (9th Cir. 1983) and *AAMCO Transmissions, Inc. v. Baker*, 591 F. Supp.

[21] Respondents did not object to CX-0037 during the hearing and have thus waived any objection to its admissibility. *See* Tr. (Xiong) at 53:20–54:12.

[22] Respondents also appear to contend that there are translation issues with CX-0037. Respondents Post-Hearing Resp. Br. at 29–30. To the extent that Respondents now dispute Vego Garden's translation, the Ground Rules require that "[i]f a party disputes the translation provided by the producing party, the translation must be certified by a qualified and neutral translator agreed on by the parties." Order No. 14 at Ground Rule 6.8. Respondents did not timely dispute the translation of CX-0037 and have waived their right to do so.

2d 788, 799 (E.D. Pa. 2008). In *Pazsint*, the court excluded tape-recorded emergency calls because the witnesses who gave the information which was recorded had personal knowledge but were under no business duty to report. 703 F.2d at 425. Therefore, the tape-recorded statements did not qualify for the business record exception to the hearsay rule. *See id.* In *AAMCO*, the court excluded audio-recordings and related memoranda when shoppers' statements to investigators similarly did not qualify under an exception to the hearsay rule. *See* 591 F. Supp. 2d at 794–800.

Respondents thus rely on selected decisions regarding the admissibility of hearsay evidence. The problem is that Mr. Xie's statements on the recording are not hearsay. Mr. Lu testified at his deposition as follows:

> Q. Okay. You had testified earlier that you own 80 percent of Green Giant; is that correct?
>
> A. Correct.
>
> Q. Who owns the other 20 percent?
>
> A. I actually own, I would say -- technically, I own 90 percent of the company. The other 10 percent on the paper belongs to the person with the last name Xie, because the attorney advised that I should just put it on paper the way we agreed on, but that 10 percent never materialized. And then also, there is another 10 percent that belongs to my nephew Yuxiang Lu.

CX-0500 (Lu Dep.) at 85:20–86:6.

Thus, based on the testimony of Mr. Lu, CX-0037 is a recording of a co-owner of Green Giant.[23] Because that recording was offered against Green Giant, it is not hearsay under Rules 801(d)(2)(A) or (D). *See* Fed. R. Evid. 801(d); *Barnes v. Owens-Corning Fiberglass Corp.*, 201

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[23] Respondents contend that "[f]rom the recording, it appears that Mr. Xie was not the founder of Green Giant, as he was trying to frame." Respondents Post-Hearing Br. at 24. Respondents also question whether Mr. Xie "was truly from Green Giant." Respondents Post-Hearing Resp. Br. at 30. Respondents' arguments notwithstanding, the evidence is clear that Mr. Xie is a co-owner of Green Giant.

F.3d 815, 828–29 (6th Cir. 2000) ("Of course, under Fed. R. Evid. 801(d)(2)(A), a party's own statement that is offered against him is 'not hearsay.'"); *Browe v. CTC Corp.*, 15 F.4th 175, 207–08 (2d Cir. 2021) ("Rule 801(d)(2)(D) defines as non-hearsay any statement offered against a party made 'by the party's agent or employee on a matter within the scope of that relationship while it existed.'").

Respondents further argue that they lacked the opportunity to depose Mr. Xie. Respondents Post-Hearing Resp. Br. at 26. Mr. Xie, however, is a co-owner of Green Giant and Respondents have failed to address why they did not present evidence from him. In any event, assuming *arguendo* that Mr. Xie was unavailable to testify (something never argued by Respondents), the recording is also admissible under Rule 804(b)(3)(A). *See* Fed. R. Evid. 804; *Roe v. Howard*, 917 F.3d 229, 246–47 (4th Cir. 2019) ("Rule 804(b)(3) authorizes the admission of hearsay statements by an unavailable declarant that are manifestly against the declarant's interest. Specifically, the statement must be one that 'a reasonable person in the declarant's position would have made only if the person believed it to be true because, when made, it ... had so great a tendency ... to expose the declarant to civil or criminal liability.'").

Respondents further contend that Vego Garden never specifies the information that was obtained from Mr. Yu. Respondents Post-Hearing Br. at 23; *see also* Respondents Post-Hearing Resp. Br. at 27. The evidence supports that Mr. Yu provided a substantial amount of Vego Garden confidential information to Green Giant, including, at least, drawings. When asked if the drawings for Green Giant's products were consistent with those for Vego Garden's products, Mr. Xie stated that they "should more or less be the same." CX-0037 at Nos. 68–71. Mr. Xie further stated that "a lot of data was also provided by" Mr. Yu. *Id.* at No. 71. The following additional excerpts from

CX-0037 also demonstrate that Mr. Yu provided substantial confidential information to Green Giant to address the problems Green Giant was having in manufacturing its products:

> [Mr. Xiong]: How would I put this, we have the demand, but after all, we know very little about you. And there is someone we both know of. Anyways, Yu Xiong said that he knew you, and I trust Yu Xiong in terms of his technical skills.
>
> [Mr. Xie]: We were like this. . . When we first started researching this project, as matter of fact, Yu Xiong did give us some constructive suggestions, including how to do the planning and sorting things out, including quite a bit of suggestions to be used on the system. In fact, we just entered this industry, up until now, a lot of stuff are done in reference to his standards.
>
> . . .
>
> [Mr. Xiong]: As to the corrugating process, that has certain threshold we really had to work hard to pass. It also took Yu Xiong quite some time to get the hang of it last year. Slowly we were finally able to get the right stuff.
>
> [Mr. Xie]: In fact, if starting from scratch all by ourselves, in terms of the time, let me calculate it for you, three months are not enough, not enough at all. Not to mention anything else, even if you ask your friends to design and develop this equipment, you would not have enough time. To be honest, no matter how great your skills are, it is still very easy to walk on the wrong path and waste time. Let's just be frank. We might have got a lot of ideas and suggestions from other people, but we still could not be clear about what we should do. We have done 90% of it, we were almost there, but not quite, we could just miss a little bit there, it is possible we might have achieved 99% of the work, then 100%. To us, Yu Xiong was that special helpful man. To tell you the truth, he did help us a lot, right.

CX-0037 at Nos. 80–85.

Thus, while Respondents point to certain contents of the recording, Respondents Post Hearing Resp. Br. at 25–29, and contend that Mr. Xie is "nothing but a con artist," and a "salesman who will employs [sic] whatever strategy necessary to lure the customers and receive the commission," *id*. at 30, they do not refute that Mr. Xie stated, among other things, that Mr. Yu gave "some constructive suggestions," "a lot of stuff are done in reference to his standards," and was "that special helpful man" who "help[ed] us a lot." CX-0037 at Nos. 81 and 85. Further, Mr. Xiong testified that after his discussion with Mr. Xie, in which he learned that Mr. Xie asked for Mr. Yu's help in developing Green Giant's raised metal garden bed products, he was "very concerned" that Mr. Yu had disclosed Vego Garden confidential information to Green Giant. Tr. (Xiong) at 73:12–17.

In addition, the evidence demonstrates that Green Giant's products duplicate those of Vego Garden.

CX-0019 (Green Giant catalog)

CX-0069 (Vego Garden Raised Garden Beds)

Compare CX-0019 (Green Giant catalog) *with* CX-0065, CX-0066, CX-0067, CX-0068, CX-0069 (collectively, images of Vego Garden raised garden beds). As Mr. Xie admitted in his conversation with Mr. Xiong, "[I]f starting from scratch all by ourselves, in terms of the time, let me calculate it for you, three months are not enough, not enough at all. Not to mention anything else, even if you ask your friends to design and develop this equipment, you would not have enough time." CX-0037 at No. 85. Given that Green Giant indeed managed to "design and develop th[e] equipment" within three months, the only reasonably conclusion based on the evidence is that Green Giant (including Mr. Lu) wrongfully obtained Vego Garden's trade secret information from Mr. Yu. *See* Tr. (Xiong) at 52:18–53:12; and Tr. (Lu) at 387:24–388:24.

The evidence thus strongly supports that Vego Garden confidential information was wrongfully provided by Mr. Yu to Green Giant. This includes at least the asserted trade secret information. As to the 8-inch product development trade secret, given Mr. Yu's employment by Shun Chuen, which manufactures Vego Garden's products, and his role as the Shun Chuen "point person" for Vego Garden, the evidence supports that when Mr. Xiong discussed Vego Garden introducing such a product to the market with Shun Chuen, Tr. (Xiong) at 75:18–76:1, Mr. Yu would have received that information. Respondents' immediate entry into the market with an 8-inch product, including Utopban's confirmation that upon introduction it alone had such a product, supports that Mr. Yu wrongfully disclosed Vego Garden's 8-inch product development trade secret to Green Giant.

As to Vego Garden's protective film information, the evidence demonstrates that Vego Garden worked with Shun Chuen to select its film, Tr. (Xiong) at 61:6–8, supporting that Mr. Yu had access to this information. As noted, however, the evidence does not support that this was protectable trade secret information.

And as to Vego Garden's bending machine trade secret information, the evidence supports that Shun Chuen (and thus Mr. Yu) had access to this information and used the bending machine developed by Mr. Xiong to manufacture Vego Garden's products. Tr. (Xiong) at 62:14–66:10; and CX-0060. The evidence also supports that Green Giant recruited Mr. Yu to help with its manufacturing issues, after which, those issues were resolved, and Green Giant was able to introduce its products to the market and file a patent application directed to Vego Garden's bending machine improvements. The evidence thus supports that Mr. Yu wrongfully disclosed Vego Garden's bending machine trade secret to Green Giant.

C. Use of the Asserted Trade Secrets

"Use" of a trade secret occurs "when goods that embody a trade secret are marketed, the trade secret is employed in manufacturing or production, or is relied on to assist or accelerate research or development." *Crawler Cranes*, Initial Determination, at 26–27, *citing* Restatement (Third) of Unfair Competition § 40, comment c. "An actor is liable for using the trade secret with independently created improvements or modifications if the result is substantially derived from the trade secret." *Id.*

Vego Garden contends that the asserted trade secrets are used in the manufacture of Green Giant's raised garden bed products. Complainant Post-Hearing Br. at 32. Complainant argues that the rapid pace of development and commercialization for Green Giant's products would have been impossible without the use of Vego Garden's trade secrets. *See id*. This is further confirmed by the striking similarity between Green Giant's products and those of Vego Garden. *See id*. Except for the protective film trade secret, Staff agrees with Complainant that the confidential trade secret information that Green Giant wrongfully acquired was in fact used to accelerate the time it took Green Giant to bring viable products to market. *See* Staff Post-Hearing Br. at 38.

Respondents contend that Green Giant's products were developed independently, without reference to Vego Garden's trade secrets. Respondents Post-Hearing Br. at 34–36. Respondents in particular submit that reverse engineering is common in the raised garden beds industry, and that Vego Garden has also reverse engineered other brands' products. *Id*. at 35, *citing* Tr. (Lu) at 339:3–9. Respondents argue that these products are simple in design, and well-known in the industry. *See id.* at 35–36, *citing* Tr. (Lu) at 339:3–9, 364:17–365:18. Hence, Respondents argue that they were able to develop the accused products using publicly available information and/or non-confidential information. *Id.* at 24–27.

The evidence supports that Green Giant benefited from its misappropriation and use of Vego Garden trade secrets. As discussed above in the context of misappropriation, the evidence shows that Green Giant misappropriated Vego Garden's trade secret information and used that information, including drawings, provided by Mr. Yu, in the development and manufacture of its products. *See* CX-0037 at Nos. 68–73, 81, 85. Respondents fail to rebut Vego Garden's evidence showing that the design and manufacture of Green Giant's products were derived from Vego Garden's trade secret information.

1. The 8-Inch Product Development Research Trade Secret

Respondents argue that Green Giant launched its 8-inch product because it independently found that there was a market for such product, and that it could produce this product at a reduced price due to its smaller size. *See* Respondents Post-Hearing Br. at 24–25. However, Vego Garden presented evidence showing that it took approximately a year to engage in the research and development necessary to produce its 8-inch raised garden bed. *See* Complainant Post-Hearing Br. at 24, *citing* Tr. (Xiong) at 57:24–59:1. Moreover, Utopban's corporate representative, Mr. Li, testified that there was no 8-inch product available on the market before it was introduced by Respondents. *See* CX-0501 (Li Dep.) at 45:1–13. The Staff agrees with Vego Garden that Green Giant misappropriated and used Vego Garden's trade secret. *See* Staff Post-Hearing Br. at 38. Other than the unreliable testimony of Mr. Lu, Green Giant has provided no evidence showing that it developed its own 8-inch raised metal garden bed. *See* Respondents Post-Hearing Br. at 24–25, *citing* Tr. (Lu) 357:2–25, 358:15–24; and CX-0500 (Lu Dep.) at 29:13–24.

Given that it took Vego Garden approximately one year to research and develop its 8-inch garden bed, and that Green Giant was able to beat Vego Garden to the market with its own 8-inch garden bed that it developed in three months, I find that the evidence supports that Green Giant used Vego Garden's 8-inch product development trade secret.

2. The Protective Film Trade Secret

Vego Garden argues that Mr. Lu frequently visited Shun Chuen and knew about the film Shun Chuen used for Vego Garden's products. Complainant Post-Hearing Br. at 22, *citing* Tr. (Lu) at 378:7–16; Tr. (Xiong) at 52:12–17, 62:2–13. Vego Garden further argues that it would take a competitor approximately a year of research and development to select the correct film. *See id.* at 25, *citing* Tr. (Xiong) at 76:20–25; Tr. (Beaman) at 408:10–17, 408:23–409:11. Given that Green Giant was able to enter the market in three months, Vego Garden contends that Respondents must have relied on Vego Garden's trade secret information. *See id.* at 32.

Respondents contend that Vego Garden has failed to show that Green Giant uses the same film as Vego Garden. *See* Respondents Post-Hearing Br. at 25. Respondents further argue that there can be no trade secret misappropriation as both Vego Garden and Green Giant obtain their respective films from different third parties. *See id.* at 26. The Staff agrees with Respondents that Vego Garden has not proven use of the asserted protective film trade secret. *See* Staff Post-Hearing Br. at 38, n.16.

As discussed above, Vego Garden has not shown that its protective film trade secret is a protectable trade secret. *See* section V.D. Because Vego Garden does not identify the film it uses and does not identify the film Green Giant uses, Vego Garden has not demonstrated use by the Respondents of its asserted protective film trade secret.

3. The Bending Machine Trade Secret

Respondents argue that the metal-forming machine was also available to purchase from third-party factories and suppliers. *See* Respondents Post-Hearing Br. at 26. Vego Garden, however, presented evidence showing that Green Giant obtained assistance in addressing its manufacturing issues from Vego Garden's "point of contact" at its manufacturer Shun Chuen. In fact, Mr. Xie admitted to Mr. Xiong that Mr. Yu was "that special helpful man" who guided the development of Green Giant's manufacturing process. *See* CX-0037 at No. 85. In addition, as Dr. Beaman testified, Green Giant's bending machine appears to be nearly identical to that of Vego Garden's. *See* Tr. (Beaman) at 406:16–21; *compare* JX-0009 *with* JX-0021.

Green Giant was able to develop its own manufacturing process in three months, whereas it took Vego Garden approximately a year to do the same. *See* Tr. (Xiong) at 66:14–67:6; CX-0037 at No. 27. Green Giant's Mr. Xie admitted to Mr. Xiong, during the recorded conversation, that Green Giant relied on information provided by Mr. Yu:

> [Mr. Xiong]: Ok. We don't need to hide anything. If it is the drawings that Yu Xiong gave to you, then they should be the same. If the drawings are not the same, it wouldn't be possible that we ask you to make the products (for us).
>
> [Mr. Xie]: They should be more or less the same, because a lot of data was also provided by him. In other words, they are within the industry, you know. It is a very small circle, you know, and all products are more or less the same. Products such as the nine in one, are basically the same.
>
> [Mr. Xiong]: Nine-in-one ... , but this is our own naming method. Do you also call that nine-in-one?
>
> [Mr. Xie]: More or less. You are the benchmark in the industry. Everyone in the industry has more or less the same thing.

CX-0037 at Nos. 70–73.

In addition, the extensive similarities between the corner panels of Vego Garden's products and those of Green Giant are circumstantial evidence of use of Vego Garden's trade secret information. *Compare* CX-0019 (Green Giant catalog) *with* CX-0065, CX-0066, CX-0067, CX-0068, CX-0069 (images of Vego Garden raised garden beds).

"A claim of trade secret misappropriation is broad enough to encompass modifications or improvements to a product or process, when such modifications or improvements are derived from the asserted trade secrets." *Certain Steel Railway Wheels, Processes for Manufacturing or Relating to Same and Certain Products Containing Same*, Inv. No. 337-TA-655, USITC Pub. No. 4256 (Oct. 2011), Initial Determination at 46 (Oct. 16, 2009), *unreviewed in relevant part by* Comm'n Notice (Dec. 17, 2009), *affirmed by TianRui*, 661 F.3d 1322. Vego Garden has shown that the improvements it made to bending machine technology were its trade secret. The evidence also demonstrates that Green Giant had access to Vego Garden's bending machine trade secret and recruited Mr. Yu to assist with its manufacturing issues. The only reasonable conclusion from the evidence is that Green Giant used Vego Garden's misappropriated bending machine trade secret information when developing its own bending machine and continued using that trade secret information when manufacturing its products.

VII. RESPONDENTS' AFFIRMATIVE DEFENSE OF INDEPENDENT DEVELOPMENT

Respondents contend that they independently developed their raised metal garden bed products without reference to Vego Garden's trade secrets. Respondents' Post-Hearing Br. at 35–36. A respondent bears "a heavy burden" in proving independent development. *Sausage Casings*, Inv. Nos. 337-TA-148/169, Initial Determination at 247.

In contending that "the evidence shows that Green Giant developed the raised garden bed products independently, without reference to Complainant's trade secrets," Respondents point to May 2021 agreements with third parties to purchase equipment and materials. Respondents Post-Hearing Br. at 35, *citing* JX-0001[24] (Equipment Purchase Agreement); JX-0007C (Xiamen Brandnew Metal Co. Specifications); and JX-0008C (Xiamen Brandnew Metal Co. Specifications). Those documents, however, do not demonstrate independent development of Vego Garden's trade secrets. Instead, they show that Respondents were taking steps to manufacture competing raised metal garden bed products.

[24] Respondents identify this document as JX-0001C. Respondents Post-Hearing Br. 35. It was labeled as JX-0001.

And despite these agreements, the evidence shows that Green Giant could not find equipment manufacturers to make the equipment it needed. CX-0037 at No. 67 ("Because the equipment cannot be found. I found many factories to help and none of them could make it"). Instead, at the time Respondents contend Green Giant was involved in independent development, Green Giant needed the help of Mr. Yu. *Id*. at No. 85 ("To us, Yu Xiong was that special helpful man. To tell you the truth, he did help us a lot, right."). As noted in *Sausage Casings*, evidence that necessary information could not be provided by the party asserting independent development does not meet the "heavy burden of persuasion" that the design "was the result of independent development." Inv. Nos. 337-TA-148/169, Initial Determination at 284–285. That is the case here. At the very time Respondents contend Green Giant was engaged in independent development, Green Giant was having difficulty finding an equipment manufacturer and needed the help of Mr. Yu to manufacture its own raised metal garden bed products.

Respondents also contend that "Vego's manufacturer admitted that the raised metal garden beds are 'reverse engineerable.'" Respondents Post-Hearing Br. at 35, *citing* Tr. (Lu) at 339:3–9. Respondents grossly mischaracterize the cited testimony. Instead of an admission by Vego Garden's manufacturer, Shun Chuen, Mr. Lu testified that Vego Garden "approached Shunchuan for the manufacturing of the product, but because Shunchuan also did not know how to do it, how to make it, so they reverse-engineered this product." *Id*. In the face of the evidence demonstrating that Green Giant (and Mr. Lu) had to rely on Mr. Yu to manufacture its products, Mr. Lu's testimony that Shun Chuen reverse engineered Vego Garden's products is not credible.

Respondents also point to the testimony of Mr. Lu regarding the alleged prevalence of reverse engineering in China. Respondents Post-Hearing Br. at 35, *citing* Tr. (Lu) at 364:19–23 (Q. In your opinion, is raised garden beds easy to reverse-engineer? A. Well, it is not just me. I believe in the entire country, in China, this is a very easy thing to do. And that's why it only took me very, very little time to give a quote to Shunchuan when they first approached me asking whether I was able to manufacture the panels."). Even accepting *arguendo* that reverse engineering is a common practice in China, Respondents have failed to meet their burden to demonstrate independent development of Vego Garden's trade secrets.

Respondents also cite generally to the deposition testimony of Dr. Beaman for the proposition that certain of the trade secrets are "reverse engineerable." Respondents Post-Hearing Br. at 36, *citing* RX-0500. Whether or not that broad proposition is true does not suggest, let alone demonstrate, that Green Giant independently developed Vego Garden's trade secrets.[25]

Based on the record evidence, Respondents have failed to carry their "heavy burden" in demonstrating independent development.

VIII. UNFAIR COMPETITION

Vego Garden asserts that Utopban has violated Section 337 by importing into the United States and/or selling the accused products through unfair competition. In particular, Vego Garden contends that Utopban engaged in false advertising under 15 U.S.C. § 1125(a)(1)(B) by using Vego Garden's photographs as false representations of its own products.[26] Amended Complaint,

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[25] Respondents also contend that "there is a lot of information about these products available online." Respondents Post-Hearing Br. at 36. As discussed above, Respondents have not shown that the 8-inch product development trade secret or the bending machine trade secret were known outside of Vego Garden. *See* sections V.C.1 and V.E.1.

[26] To the extent that Respondents identify Vego Garden's claim as one of copyright infringement, that is incorrect. *See* Respondents *Abitron* Resp. Br. at 3 (EDIS Doc. ID 802351). The Commission instituted this investigation "to determine whether there is a violation of subsection (a)(1)(A)." 87 Fed. Reg. 63527. A claim of copyright infringement is cognizable under 19 U.S.C. § 1337(a)(1)(B).

¶¶ 6.1–6.6;[27] Complainant Pre-Hearing Br. at 21–26 (identifying allegations of false advertising against Utopban); and Complainant Post-Hearing Br. at 32–37 (same). The Staff agrees that Utopban has engaged in false advertising in violation of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B). Staff Post-Hearing Br. at 39–48.

Utopban did not address or challenge Vego Garden's false advertising allegations in its pre-hearing brief. *See* Respondents Pre-Hearing Br.; Staff Post-Hearing Br. at 40; and Staff Post-Hearing Resp. Br. at 13. Under Ground Rule 11.2, "[a]ny contention not described in detail in the pre-hearing brief shall be deemed abandoned or withdrawn, except for contentions a party is not aware of and could not be aware of in the exercise of reasonable diligence when the pre-hearing brief was filed." Order No. 14 (Mar. 9, 2023) (EDIS Doc. ID 792150). Utopban does not contend that it was unaware of Vego Garden's allegations of false advertising against it, nor could it, as those allegations were plainly made in Vego Garden's Amended Complaint. Amended Complaint, ¶¶ 6.1–6.6. Because Utopban did not substantively address or contest Vego Garden's false advertising allegations in its pre-hearing brief, I find that Utopban has waived this issue.

A. Vego Garden's False Advertising Claim Is Not Moot

Despite failing to address Vego Garden's false advertising claim in its pre-hearing brief, Utopban contends that "[t]his is not an issue before the Commission since it is mooted," *i.e.,* the issue is moot because Utopban has stopped using Vego Garden's photographs. Respondents Post-Hearing Resp. Br. at 31–32; *see also* Staff Post-Hearing Br. at 40, n.17; Respondents Post-Hearing Br. at 27; and Respondents *Abitron* Resp. Br. at 2–3.

[27] Vego Garden's allegations of unfair competition in its Amended Complaint are made against "Vegega." *See id*. Utopban has admitted that it does business under the name "Vegega." Utopban Response to Amended Complaint, ¶ 3.2.

The ability of the Commission to consider an allegation "does not terminate upon the cessation of the unfair act." "[I]f that were the case, any respondent could defeat Commission section 337 jurisdiction [before] the conclusion of an investigation by ceasing importation of the subject merchandise, avoid the consequences of the violation, and then begin importing again once the 337 investigation was terminated." *Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation*, Inv. No. 337-TA-099, USITC Pub. No. 1297, Comm'n Op. at 16 (Oct. 1982) (EDIS Doc. ID 235410). As a result, even if Utopban has stopped using the photographs forming the basis of Vego Garden's false advertising claim, that claim is not moot.

B. Vego Garden Owns the Photographs Utopban Used on Its Website and Instagram

Vego Garden contends that it owns certain photographs of its products and that "Utopban introduced its products—and thereafter continued to market such products—in the United States through violations of the Lanham Act, 15 U.S.C. § 1125 (2022)" by "copying photographs of Vego's products and using such photographs to promote Utopban's products through its website and Instagram account." Complainant Post-Hearing Br. at 1.

The evidence demonstrates that Vego Garden owns the photographs of its products. Tr. (Xiong) at 36:18–21 (Vego Garden uses its farm for photographs on its website and social media); 54:16–18 (Vego Garden has an Instagram account with photographs of is raised garden bed products). This is not disputed by Utopban. Indeed, Mr. Li, the general manager of Utopban, Tr. (Li) at 310:7–14, testified that when its raised garden bed business first started, Utopban "didn't have any good looking photos" but "wanted to show the scenarios where these garden beds can be used at or in." CX-0501 (Li Dep.) at 50:21–24. To accomplish this, a Utopban employee found the

Vego Garden photographs and used them to "illustrate the [Utopban] products' use case, our products' use case." Tr. (Li) at 312:11–22.

Mr. Li also testified that Utopban did not use Vego Garden's photographs until March or April 2022, Tr. (Li) at 318:3–7, but the evidence demonstrates Utopban's use on its Instagram account at least as early as February 2022. CX-0073 (showing a date in February 2022); and SX-0008.001 (same). Mr. Li agreed that Utopban's use of Vego Garden's photographs was so that customers would buy Utopban's products. Tr. (Li) at 319:3–9. He also testified that in August 2022, users from Utopban's Instagram account alerted Utopban and "asked us why are we using someone else's photo to illustrate our own product?" at Tr. (Li) at 312:23–25. He testified that he immediately instructed his employees to stop using Vego Garden's photographs after being alerted by those users. *Id*. at 313:1–4.

Based on the record evidence, I find that Vego Garden owns the photographs Utopban used in its advertising.

C. Utopban Engaged in False Advertising

Utopban placed its first order with Green Giant for raised metal garden bed products around the first quarter of 2022. CX-0501 (Li Dep.) at 77:17–25. The evidence demonstrates that at least as early as February 2022, Utopban used Vego Garden's photographs on its website and Instagram to advertise Respondents' products. Tr. (Li) at 317:22–319:2; CX-0073; SX-0008.001. Utopban stopped using Vego Garden's photographs to advertise its products in August 2022. *Id*. at 312:23–313:7. The complaint in this investigation was filed in September 2022. 87 Fed. Reg. 63527.

Under the Lanham Act, it is unlawful to use in commerce, in connection with goods or services, any "false or misleading description of fact, or false or misleading representation of fact . . . in commercial advertising . . . [which] misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B). False advertising is recognized as a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 14.

To succeed on a Lanham Act claim of false advertising, the complainant must prove:

> (1) The respondent made false or misleading statements about their own or another person's product;
>
> (2) There is actual deception or at least a tendency to deceive a substantial portion of the intended audience;
>
> (3) The deception is material in that it is likely to influence purchasing decisions;
>
> (4) The entry of the false advertisement into interstate commerce; and
>
> (5) There is a likelihood of injury to the complainant because of the false statement.

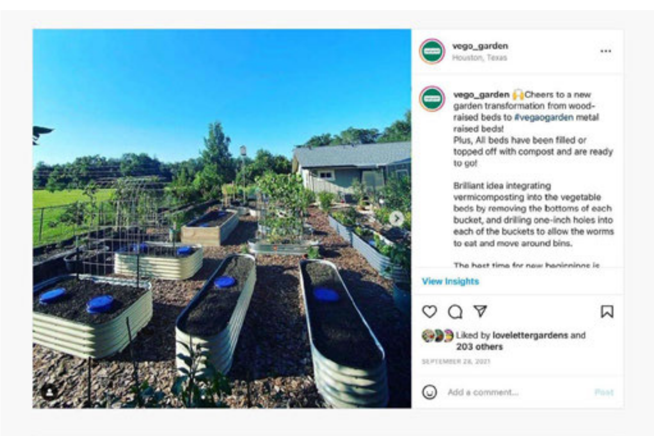
See Certain Cigarettes and Packaging Thereof, Inv. No. 337-TA-424, USITC Pub. No. 3366, Initial Determination at 43 (Jun. 22, 2000) (*Cigarettes*), *unreviewed by*, Comm'n Notice (Aug. 28, 2000) (EDIS Doc. ID 52778).

As noted, Respondents do not dispute the merits of Vego Garden's false advertising claim. Nonetheless, I address each of the factors below.

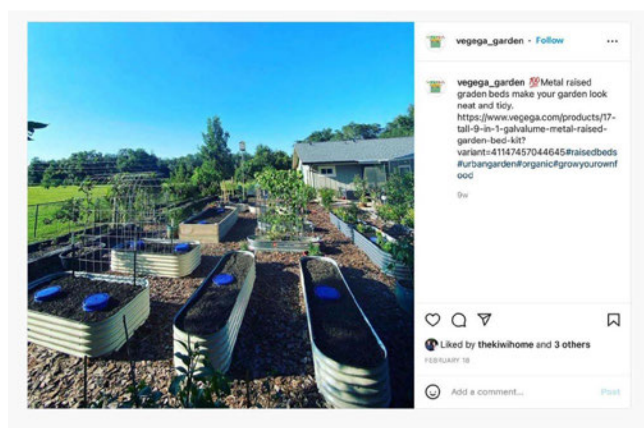
1. Utopban Made False Statements

To show a false or misleading statement, "the complainant must prove that the advertisement is 'either (1) literally false, or (2) literally true or ambiguous but likely to mislead or deceive consumers.'" *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 15. An advertisement is "'literally false' if the message is both (1) unambiguous and (2) false." *Id*. In considering literal falsity, the factfinder must first identify the claim conveyed in the advertising. Once the claim is identified, the factfinder must evaluate whether the claim is false. *Clorox Co. Puerto Rico v. Procter & Gamble Co.*, 228 F.3d 24, 34 (1st Cir. 1984). A literally false message can be "either (1) explicit or (2) conveyed by necessary implication when, considering the advertisement in its entirety, the audience would recognize the claim as readily as if it had been explicitly stated." *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 15–16 (citations and quotations omitted). Whether a statement is literally false is a question of fact. *Certain Woven Textile Fabrics and Products Containing Same*, Inv. No. 337-TA-976, Initial Determination at 9 (Nov. 10, 2016) (EDIS Doc. ID 595428), *unreviewed by*, Comm'n Notice (Dec. 20, 2016) (EDIS Doc. ID 598632) (*Woven Textile Fabrics*).

I find that the claim conveyed by Utopban's use of Vego Garden's photographs in its advertising is that Vego Garden's products are Utopban's products. Side-by-side comparison of photographs on Vego Garden's social media (on the left) and Utopban's use of the very same photographs to advertise its products on its social media and on its website (on the right) demonstrate that Utopban was claiming that Vego Garden's products were its own:



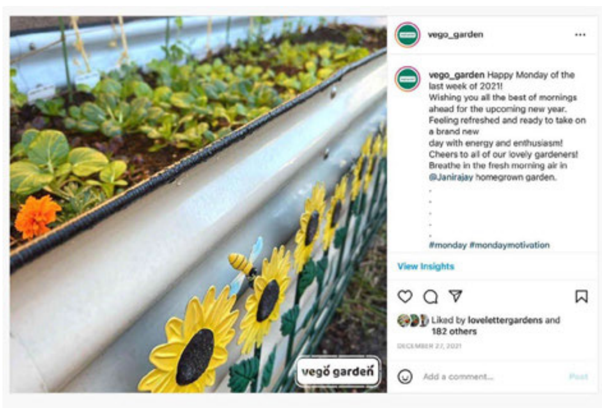
CX-0074 (image from Vego Garden Instagram)



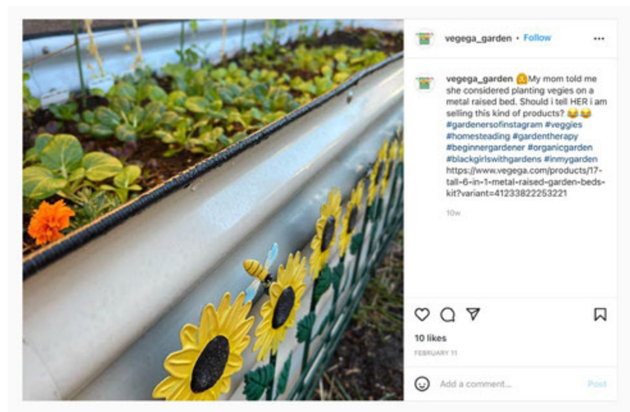
CX-0073 (image from Vegega Instagram)

CX-0072 (image from Vego Garden Instagram)

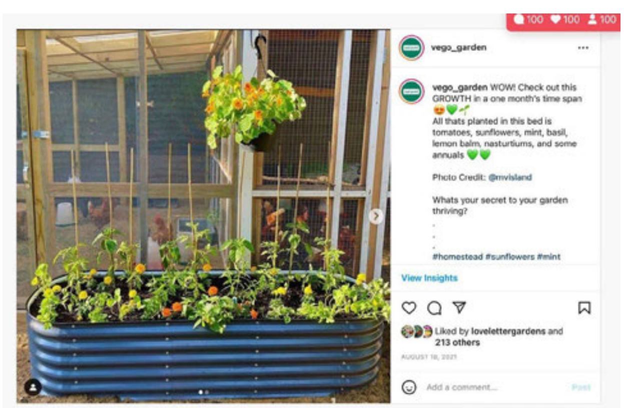
CX-0071 (image from Vegega Instagram)



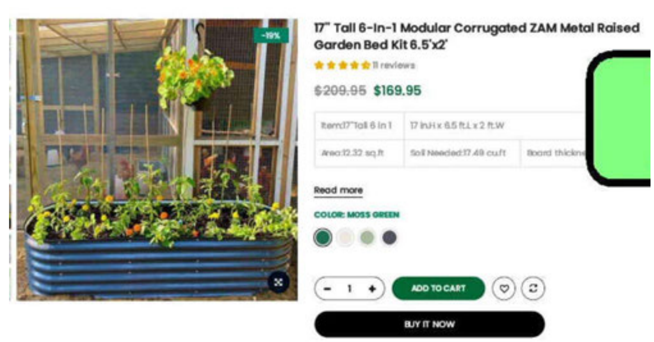
CX-0064 (image from Vego Garden Instagram)



SX-0008.001 (image from Vegega Instagram)

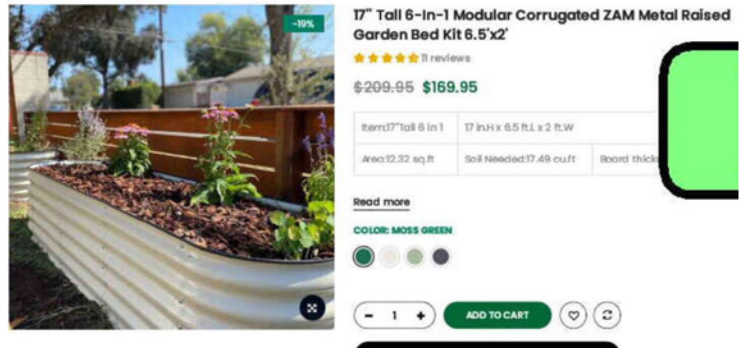


CX-0065 (image from Vego Garden Instagram)

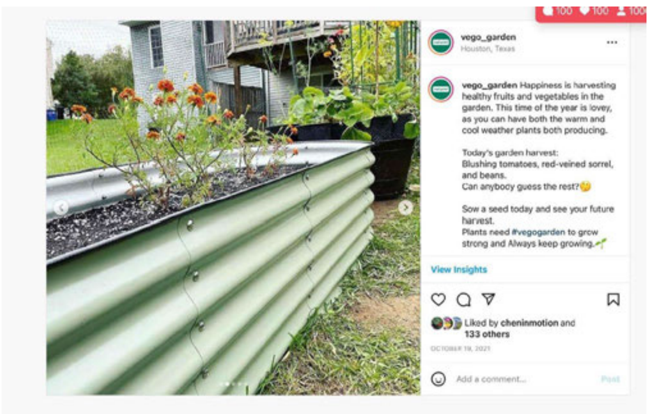


CX-0075 (image from Vegega website)

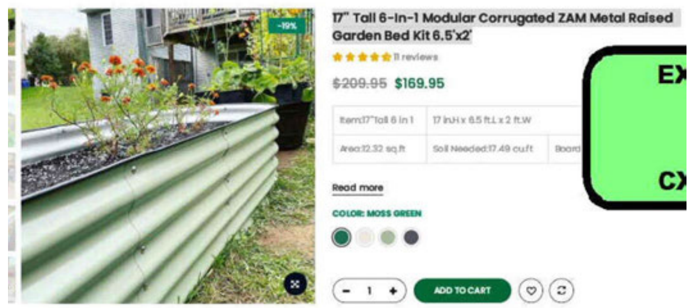
CX-0066 (image from Vego Garden Instagram)



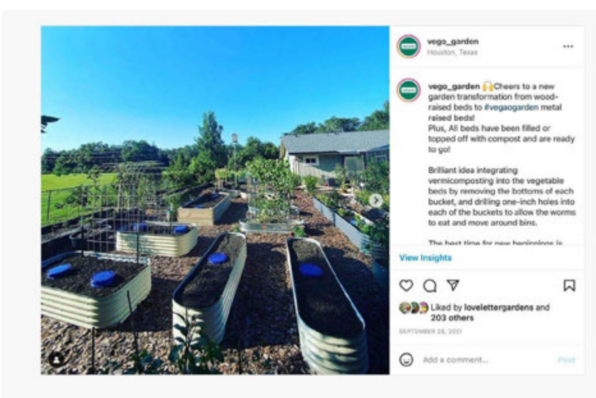
CX-0076 (image from Vegega website)



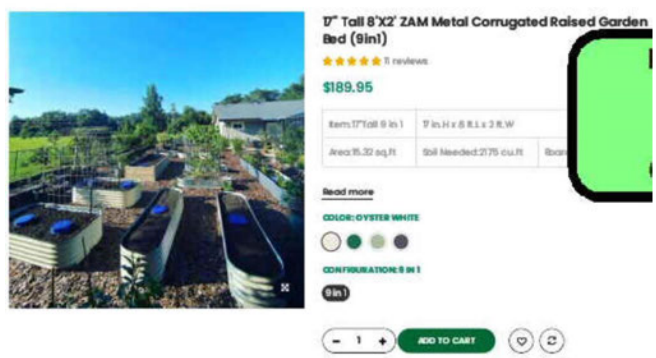
CX-0068 (image from Vego Garden Instagram)



CX-0078 (image from Vegega website)



CX-0069 (image from Vego Garden Instagram)



CX-0079 (image from Vegega website)

By its use of Vego Garden's photographs, Utopban expressly represented that the Vego Garden product shown in the photograph was its own product. CX-0073 (showing a Vego Garden photograph on Vegega Instagram and stating the availability of a Vegega product at "https://vegega.com/products/17-tall-9-in-1-galvalume-metal-raised-garden-bed-kit"); Complaint Ex. 3 (showing a Vego Garden photograph and stating, "vegega_garden -- My mom told me she considered planting vegies on a metal raised bed. Should i tell HER i am selling this kind of products?"); CX-0075 (showing a Vego Garden photograph and stating that a "17" Tall 6-In-1 Modular corrugated ZAM Metal Raised Garden Bed Kit" is available from Vegega and identifying a U.S. address and telephone number); CX-0076 (same); CX-0078 (same); and CX-0079 (same).

To the extent Utopban's use of Vego Garden's photographs was not an express representation that Vego Garden's products were its own products, that representation was conveyed by necessary implication. By using Vego Garden's photographs as representations of what could be purchased from Utopban, Utopban conveyed by necessary implication that Vego Garden's products were its products. *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 15.

Having determined the nature of Utopban's claim, I next consider whether the claim was false. The Commission has considered this issue and concluded that "[u]se of the photograph of a competitor's product to advertise another manufacturer's product is false advertising." *Certain Vertical Milling Machines and Parts, Attachments, and Accessories Thereof*, Inv. No. 337-TA-133, USITC Pub. No. 1512, Comm'n Op. at 41 (Mar. 1984) (EDIS Doc. ID 235415) (*Vertical Milling Machines*); *see also Certain Miniature Plug-in Blade Fuses*, Inv. No. 337-TA-114, USITC Pub. No. 1337 (Jan. 1983), Comm'n Op. at 32 ("Walter's wrongful use of a picture of a Littelfuse fuse in its advertisement clearly constitute[s] false advertising") (EDIS Doc. ID 235411) (*Plug-in Blade Fuses*); and *Ebeling & Reuss Co. v. Int'l Collectors Guild, Ltd.*, 462 F. Supp. 716, 720 (E.D. Pa. 1978) (use of the plaintiff's photograph "is a false description or representation, actionable under the Lanham Act").

There is no question, Utopban's representation that Vego Garden's products were its own products was false and there is no other plausible meaning that can be derived from that use. *Cf. Clorox*, 228 F.3d at 35 (a claim with several plausible meanings may not be characterized as literally false). The Vego Garden products are not Utopban products. Utopban does not dispute this. I find that the claim conveyed when Utopban used Vego Garden's photographs to advertise its own products was literally false.

2. Utopban's False Statements Were Deceptive

"If the statement is literally false, then the ALJ may grant relief without considering evidence of consumer reaction." *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 30 (internal quotations omitted); *see also Woven Textile Fabrics*, Inv. No. 337-TA-976, Initial Determination at 9, *citing Clorox*, 228 F.3d at 33. That is, proof of literal falsity relieves the complainant of its burden to prove actual consumer deception. *Groupe SEB USA, Inc. v. Euro-Pro Operating LLC*, 774 F.3d 192, 198 (3rd Cir. 2014).

Because Utopban's statements were literally false, Vego Garden was not required to prove consumer deception. Nonetheless, the record evidence demonstrates actual consumer deception. Through its use of Vego Garden's photographs, Utopban repeatedly and for months represented to customers and potential customers in the United States, either on its website or through its social media, that Vego Garden's products were its products. In particular, consumers who ordered through Utopban's website (www.vegega.com) believed they were ordering Vego Garden products because Utopban used Vego Garden's photographs. Mr. Guanyuan Xiong, the founder of Vego Garden, testified that Vego Garden customer service tickets show customer confusion between Vego Garden products and those marketed by Utopban under the Vegega name using Vego Garden photographs. Tr. (Xiong) at 55:6–57:12 (testifying about customer tickets; CX-0001;

CX-0002; and CX-0003). Vego Garden's customer service tickets demonstrate consumer confusion because of Utopban using Vego Garden's photographs. CX-0001 (Feb. 2022, Vego Garden responding to customer requesting order confirmation after placing an order through Utopban's website (www.vegega.com): "We looked into Vegega and it looks like they are using most of our pictures from our site" and advising consumer to cancel their order with Vegega); CX-0002 (Apr. 2022, customer communicating with Vego Garden that "I ordered through vegega.com. Looks identical to your product" and "There [sic, their] pics of products are almost identical to yours. I hope its [sic] not a bait and switch situation"); CX-0003 (May 2022, from customer to Vego Garden: "After ordering I realized they were not from your company but from Vegega, a Chinese company. They seem to be the very same beds though" and noting the lower price of Utopban products). In addition, Mr. Li, the general manager of Utopban, testified that he was aware of instances in which customers were confused between Vego Garden products and products marketed by Utopban/Vegega. Tr. (Li) at 325:3–20. This was confirmed in an internal Utopban document. CX-0080C (from Utopban to consumer: "Ohh, I'm afraid that is not our order form. I think your [sic] purchase from vegogarden last year").

I find that the record evidence supports that there was actual deception of a substantial portion of the intended audience.

3. Utopban's False Statements Were Material

If an advertisement is literally false, a court may grant relief "without considering evidence of consumer reaction," including whether the false statement was material. *Southwest Recreational Indus., Inc. v. FieldTurf, Inc.*, 2002 WL 32783971 at *3 (5th Cir. 2002) ("where a defendant has made literally false statements, the plaintiff need not demonstrate that the statements actually misled consumers, for we assume that false statements are materially deceptive"); *see also Johnson*

& Johnson, Inc. v. GAC, Int'l, Inc., 862 F.2d 975, 977 (2d Cir. 1988) ("[w]hen a merchandising statement or representation is literally or explicitly false, the court may grant relief without reference to the advertisement's impact on the buying public); *Clorox*, 228 F.3d at 33; *Certain Light Emitting Diode Products and Components Thereof*, 337-TA-947, Initial Determination at 435, n.60 (EDIS Doc. ID 589794) (July 29, 2016) (*Light Emitting Diodes*).

Because Utopban's advertisements using Vego Garden's photographs are literally false, materiality, like deception, may be presumed. The evidence nonetheless demonstrates that Utopban's deception was "material in that it is likely to influence purchasing decisions." *Woven Textile Fabrics*, Inv. No. 337-TA-976, Initial Determination at 14; *see also Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 30. Mr. Li admitted that potential Utopban customers were in fact confused between Vego Garden's and Utopban's products. CX-0501 (Li Dep.) at 45:17–46:2; and CX-0080C. In addition, Vego Garden's communications with several customers show that within the period Utopban admits it was using Vego Garden's photographs, potential Vego Garden customers made decisions to purchase raised garden bed products from Utopban (Vegega) because Utopban used Vego Garden's photographs. *See* CX-0001 ("they are using most of our pictures from our site"); CX-0002 ("There [sic] pics of products are almost identical to yours"); and CX-0003 ("They seem to be the very same beds").

Based on the record evidence, I find that Utopban's false statements were material in that they influenced purchasing decisions.

4. Utopban's False Advertisements Entered into Interstate Commerce

As to interstate commerce, some cases have considered whether the false advertisement entered into interstate commerce. *Cigarettes*, Inv. No. 337-TA-424, Initial Determination at 43 (identifying the fourth factor as "the entry of the false advertisement into interstate commerce"), *citing United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1180 (8th Cir. 1998) ("the defendant caused its false statement to enter interstate commerce") and *Southland Sod Farms v. Stover Seed Co.*, 108 F.3d 1134, 1139 (9th Cir. 1997) ("the defendant caused its false statement to enter interstate commerce"); *Light Emitting Diodes*, Inv. No. 337-TA-947, Initial Determination at 431–32 (identifying the fourth factor as whether the "[t]he defendant placed the false or misleading statement in interstate commerce"); and *Certain Bearings and Packaging Thereof*, Inv. No. 337-TA-469, USITC Pub. No. 3736, Initial Determination at 153 (Dec. 2004) (EDIS Doc. ID 219734). The Ninth Circuit stated in *Southland* that before "the 1988 amendments to § 43(a), Pub. L. No. 100–667 § 132, 102 Stat. 3935, 3946, the interstate commerce requirement was associated with the defendant's falsely advertised goods or services. After the 1988 amendments, it is the statement itself, rather than the falsely advertised goods or services, that must be used in interstate commerce." 108 F.3d at 1139, n.3.[28]

Relevant to the interstate commerce requirement, after the parties submitted their post-hearing briefs, the Supreme Court issued its decision in *Abitron Austria GmbH v. Hetronic, Int'l, Inc.*, C.A. No. 21-1043, 2023 WL 4239255 (Jun. 29, 2023).[29] *Abitron* involved radio remote

[28] Other cases addressing false advertising under 15 U.S.C. § 1125(a)(1)(B) have considered whether the advertised good (as opposed to the advertisement) traveled in interstate commerce. *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 15 (identifying the fourth factor as whether "[t]he advertised good traveled in interstate commerce"); *Woven Textile Fabrics*, Inv. No. 337-TA-976, Initial Determination at 8 (identifying the fourth factor as whether "[t]he advertised good traveled in interstate commerce"); and *Groupe SEB USA, Inc. v. Euro-Pro Operating LLC*, 774 F.3d 192, 198 (3rd Cir. 2014) (identifying the fourth factor as whether "the advertised goods traveled in interstate commerce"). For the reasons explained below, based on the Supreme Court's recent decision in *Abitron*, "use in commerce" refers to the advertisement. Nonetheless, the evidence demonstrates that Respondents' raised metal garden bed products were imported into the United States and thus entered into interstate commerce. *See* section IV.

[29] I asked the parties to address the relevance and impact, if any, of *Abitron* to this investigation and have considered their briefs. *See* Request for Additional Briefing (EDIS Doc. ID 801611).

controls for construction equipment. Hetronic sold and serviced such products, which used a "distinctive black and yellow color scheme to distinguish them from those of its competitors." Slip Op. at 1, *quoting* 10 F.4th 1016, 1024 (10th Cir. 2021). Hetronic sued Abitron for trademark infringement under 15 U.S.C. § 1125(a)(1) after Abitron began selling Hetronic-branded products, mostly in Europe, but also in the United States. After the Tenth Circuit affirmed a damages award that included "foreign infringing conduct," Slip Op. at 3, the Supreme Court granted certiorari to consider whether 15 U.S.C. § 1125(a)(1) has extraterritorial application.

In its decision, the Court first recognized the presumption against extraterritorial application of U.S. laws and the "two-step framework" in applying that presumption. Slip Op. at 3. "At step one, [courts] determine whether a provision is extraterritorial, which determination turns on whether 'Congress has affirmatively and unmistakably instructed that' the provision at issue should 'apply to foreign conduct.'" *Id*. The Court concluded that section 1125(a)(1) is not extraterritorial because it does not "provide[] an express statement of extraterritorial application or any other clear indication that it is one of the 'rare' provisions that nonetheless applies abroad." Slip. Op. at 6.

Having concluded that § 1125(a)(1) is not extraterritorial, the Court "move[d] to step two, which resolves whether the suit seeks a (permissible) domestic or (impermissible) foreign application of the provision." Slip Op. at 4. "To make that determination, courts must start by identifying the focus of congressional concern underlying the provision at issue. The focus of the statute is the object of its solicitude, which can include the conduct it seeks to regulate as well as the parties and interests it seeks to protect or vindicate." *Id*. (citations and internal quotations omitted). The Court stated that mere identification of the statutory focus is not sufficient. Courts instead must also "ask whether the conduct relevant to that focus occurred in the United States territory. Thus, to prove that a claim involves a domestic application of a statute, plaintiffs must establish that the conduct relevant to the statute's focus occurred in the United States." *Id*. (citations, internal quotations, and emphasis omitted).

As applied to section 1125(a)(1) and Hetronic's claims of trademark infringement, the Court stated that the conduct relevant to the statute's focus is unauthorized use in domestic commerce of a protected trademark when, among other things, that use is likely to cause confusion. Slip Op. at 9; *see also* Slip Op. at 14–15 ("Under the Act, the term use in commerce means the bona fide use of a mark in the ordinary course of trade, where the mark serves to 'identify and distinguish the mark user's goods and to indicate the source of the goods" (cleaned up)). Thus, per *Abitron*, the relevant use in domestic commerce with respect to a claim of trademark infringement is use of the mark, not a product that may be associated with the mark.

By analogy here, the conduct relevant to the focus of section 1125(a)(1) with respect to a claim of false advertising is the unauthorized use of Vego Garden's photographs to advertise Utopban's raised metal garden bed products. The question *Abitron* directs courts to address is whether that conduct was domestic. If the answer is yes, there is an appropriate non-extraterritorial claim under section 1125(a)(1). If the answer is no, there is not. Slip Op. at 9–10.

There is no dispute that Utopban used Vego Garden's photographs to advertise Utopban's raised metal garden bed products through its website and Instagram account. CX-0071; CX-0073; CX-0075; CX-0076; CX-0078; CX-0079; and SX-0008.001. There is no dispute that Utopban's website and Instagram account with Vego Garden's photographs were available in the United States. Respondents *Abitron* Br. at 3 (EDIS Doc. ID 802113). That availability demonstrates domestic use in commerce by Utopban. *See Abitron*, J. Jackson (concurring), Slip Op. at 4, n.2 ("in the internet age, one could imagine a mark serving its critical source-identifying function in domestic commerce even absent the domestic physical presence of the items whose source it identifies," *quoting* 5 J. McCarthy, Trademarks and Unfair Competition § 25.56 (5th ed. Supp. 2023) ("The use of an infringing mark as part of an Internet site available for use in the United States may constitute an infringement of the mark in the United States")); *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 27 ("an article sold and imported in connection with the unauthorized use of a certification mark on a website may represent an unfair act under section 337(a)(1)(A)"), *quoting Cardservice Int'l, Inc. v. McGee*, 950 F. Supp 737, 741 (E.D. Va. 1997) (considering domain name use and stating, "[t]he terms of the Lanham Act do not limit themselves in any way which would preclude application of federal trademark law to the internet. Unauthorized use of a domain name which includes a protected trademark to engage in commercial activity over the internet constitutes use 'in commerce,' 15 U.S.C. Section 1114(1), of a registered mark.").[30]

Vego Garden argues that its "false advertising claim relies upon the Commission's *in rem* jurisdiction over Respondents' imported goods," which it contends "renders the *Abitron* decision wholly inapposite to [its] false advertising claims." Complainant *Abitron* Br. at 2. (EDIS Doc ID 802112). Vego Garden, however, improperly conflates whether there is a valid claim under 15 U.S.C. § 1125(a)(1) with the Commission's statutory authority to investigate unfair methods of competition and unfair acts in the importation of articles into the United States under 19 U.S.C. § 1337(a)(1)(A). *TianRui*, 661 F.3d at 1334–35. The *in rem* jurisdiction of the Commission does not supplant the requirement, confirmed in *Abitron,* of use in domestic commerce necessary for a claim under 15 U.S.C. § 1125(a)(1). Instead, a false advertisement must enter into interstate

[30] The Supreme Court in *Abitron* held that "in commerce" in section 1114(1)(a) has the same meaning as in section 1125(a)(1). Slip Op. at 6–10.

commerce for there to be a justiciable claim under section 1125(a)(1). The Commission has statutory authority to investigate that claim if the additional requirements of section 337 are met, including importation. While, as Vego Garden argues, the focus of a claim under section 337 is unfair methods of competition and unfair acts in the importation of goods, Complainant *Abitron* Resp. Br. at 2 (EDIS Doc. ID 802377), that focus does not eliminate the predicate requirement of the use of a false or misleading statement in an advertisement in domestic commerce for a cognizable false advertising claim under 15 U.S.C. § 1125(a)(1), as confirmed by the Supreme Court in *Abitron*.

In their supplemental briefing addressing *Abitron*, Respondents correctly note that the relevant conduct in a false advertising claim relates to the "false or misleading statement," but then contend that none of statements made by Utopban "occurred in the United States" because "[a]ll of Utopban's employees including the marketing team are located outside of the United States, and the marketing and research activities are also located outside of the united States as well." Respondents *Abitron* Br. at 3; *see also* Respondents *Abitron* Resp. Br. at 3 (contending that there "was no indicator that Utopban's advertisements on Instagram were generated in the United States or its territories"). The question, however, is not the origin of the false statement. Instead, the question is whether the false statement entered into interstate commerce. Slip Op. at 9–10. It is therefore irrelevant that Utopban initiated the false statements outside the United States. Instead, by Respondents' own admission, Utopban's website and Instagram with the false statements (Utopban's use of Vego Garden's photographs) were accessible worldwide, including in the United States. Respondents *Abitron* Br. at 3. As a result, per *Abitron*, Vego Garden's false advertising claim under section 1125(a)(1) is a permitted, non-extraterritorial application of that statute.

In addition to the availability in the United States of Utopban's website and Instagram account using Vego Garden's photographs, the evidence demonstrates that Utopban's advertisements using Vego Garden's photographs actually entered interstate commerce. Respondents contend that "Complainant failed to provide any evidence demonstrating that the advertising was specifically directed at the United States." Respondents *Abitron* Resp. Br. at 4. Respondents do not explain what they mean by "specific direction" and nothing in § 1125(a)(1) requires "specific direction." To the extent required, however, the evidence demonstrates that Utopban specifically advertised its raised garden bed products in the United States using Vego Garden's photographs.

The only products that Utopban sells are raised metal garden bed products. CX-0501 (Li Dep.) at 20:19–21. In 2022, approximately 90% of Utopban's revenue was related to importation into the United States of raised metal garden bed products. Tr. (Li) 325:25–326:18. Utopban distributors use Utopban's website so that "consumers are able to purchase [its] products directly from such link." CX-0501 (Li Dep.) at 13:8–20. Mr. Li testified that users of Utopban's Instagram account asked Utopban, "why are we using someone else's photo to illustrate our own product?" Tr. (Li) at 312:23–313:7. A potential Vego Garden customer, who identified themself as being from Milwaukee, Wisconsin, reported that Utopban's "pics of products are almost identical to yours." CX-0002. Given that the vast majority of Utopban's revenue is from sales into the United States and that (1) Utopban customers can and do use its website to purchase Respondents' raised garden bed products in the United States and (2) multiple Utopban customers asked through social media why Utopban was using Vego Garden's photographs to advertise its products, there is no question that Utopban's false advertising actually entered into interstate commerce.

The record evidence thus demonstrates that Utopban's false advertisements entered into interstate commerce.

5. Vego Garden Was Injured by Utopban's False Statements

"[T]o succeed on a false advertising claim under the Lanham Act, a plaintiff must show, besides the other elements, that it has been or is likely to be injured as a result of a false or misleading statement of fact." *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 32, *citing Verisign Inc. v. XYZ.com LLC*, 848 F.3d 292, 298–99 (4th Cir. 2017). Similarly, to demonstrate a violation under section 337(a)(1)(A) based on false advertising, a complainant must demonstrate a causal nexus between a respondent's false advertising and its injury. *Id.* at 17. Whether Vego Garden has demonstrated such causal nexus (and thus whether it has shown "it has been or is likely to be injured as a result of a false or misleading statement of fact") is addressed in section IX.B.2.b. For the reasons explained there, the evidence supports that Vego Garden was injured by Utopban's false statements.

IX. DOMESTIC INDUSTRY

Commission investigations involving trade secret misappropriation and false advertising are governed by 19 U.S.C. § 1337(a)(1)(A), which declares unlawful—

> Unfair methods of competition and unfair acts in the importation of articles . . ., into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—
>
> (i) to destroy or substantially injure an industry in the United States;
> (ii) to prevent the establishment of such an industry; or
> (iii) to restrain or monopolize trade and commerce in the United States.

19 U.S.C. § 1337(a)(1)(A).

Vego Garden must demonstrate that it has an "industry in the United States" that has suffered "actual substantial injury, or threat of substantial injury."[31] 19 U.S.C. § 1337(a)(1)(A)(i); *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 10 ("Therefore, there is a requirement not only that the complainant demonstrate the existence of a domestic industry, but also that there be actual substantial injury or the threat of substantial injury to a domestic industry"); *see also Certain Foodservice Equipment and Components Thereof*, Inv. No. 337-TA-1166, Comm'n Remand Op. at 10 (Dec. 16, 2020) (EDIS Doc. ID 728171) (*Foodservice Equipment*). Whether Vego Garden has demonstrated (1) the existence of a domestic industry; and (2) injury to that domestic industry are addressed in turn below.

A. Existence of a Domestic Industry

To determine whether an "industry in the United States" exists under section 337(a)(1)(A)(i), the Commission considers the "nature and significance of complainants' business activities in the United States that relate to complainants' domestic industry products to determine whether there are sufficient qualifying activities to constitute an industry in the United States." *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22. Where a Complainant's domestic industry product is manufactured outside the United States, a domestic industry may be established through activities having a close relationship to the domestic industry products. *See Certain Airtight Cast-Iron Stoves*, Inv. No. 337-TA-69, USITC Pub. No. 1126, Comm'n Op. at 11 (Jan. 1981) (EDIS Doc. ID 235399) (*Cast-Iron Stoves*). Further, the domestic industry does not have to involve use of the asserted trade secrets, but the domestic industry must be the industry that is targeted by, or that directly competes with, the unfair imports. *TianRui*, 661 F.3d at 1337.

[31] Vego Garden does not allege injury to a domestic industry under section 337(a)(1)(A)(ii) or (iii). *See* Complainant Post-Hearing Br. at 43–46; and Staff Post-Hearing Br. at 59–61.

1. Investments in and Expenditures on Qualifying Activities

In considering whether a complainant's domestic activities are qualifying, the Commission has highlighted that in using the word "industry," and not "manufacturing," section 1337(a)(1)(A) covers "more than just domestic manufacturing." *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 24, *citing Schaper Mfg. Co. v. Int'l Trade Comm'n*, 717 F.2d 1368, 1373 (Fed. Cir. 1983) ("in proper cases 'industry' may encompass more than the manufacturing of the [domestic industry] item"). The lodestar in determining what non-manufacturing activities in the United States qualify toward a domestic industry is "whether a complainant's domestic activities are distinguishable from those of a mere importer." *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22; *Foodservice Equipment*, Inv. No. 337-TA-1166, Comm'n Op. at 6 (Oct. 29, 2021) (EDIS Doc. ID 755527). There is no "bright-line rule" in making this assessment. *Id*.

Depending on the facts and circumstances of a particular investigation, activities that may qualify include product development, and related engineering, start-up operations, and technical assistance, *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22–25, *citing Certain Apparatus for the Continuous Prod. of Copper Rod*, Inv. No. 337-TA-52, USITC Pub. No. 1017, Comm'n Op. at 53–55 (Nov. 1979) (EDIS Doc. ID 217930), as well as education and training and research and development, *id*. at 30 and 34. Other activities may also be considered qualifying, including, in appropriate circumstances, marketing and sales activities when those activities have a relationship with a complainant's "significant investment in manufacturing and servicing products." *Certain Toner Cartridges, Components Thereof, and Systems Containing Same*, Inv. No. 337-TA-1174, Order No. 40 at 114, n.31 (Jul. 23, 2020) (EDIS Doc. ID 716848), *unreviewed by* Comm'n Notice (Sep. 8, 2020) (EDIS Doc. ID 719096). Marketing and sales activities in the United States alone, however, are not sufficient qualifying activities. H.R. Rep. No. 100-40, Pt. 1, at 157 (1988). Likewise, the Commission often considers activities such as administrative overhead, inspections, and warehousing associated with importation of the domestic industry product as non-qualifying activities of a mere importer. *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22. Importantly, qualifying activities must "relate to complainants' domestic industry products." *Id*.

After considering what activities qualify as contributing to the domestic industry, the Commission considers the investments or expenditures that have been made in those activities. *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 26. Those can include investments or expenditures in plant, equipment, land, labor, and capital, among others. *Id*.

a) Vego Garden's Business

Vego Garden is a start-up company located in Houston, Texas. Its products are modular raised metal garden beds that can be configured in a variety of ways based on customer preference. JX-0010 (identifying Vego Garden products); and Tr. (Xiong) at 198:6–16 (describing the three different heights of each of five different configurations in Vego Garden's current product line). Mr. Xiong, one of Vego Garden's founders, testified that he started working on raised metal garden bed products around the beginning of 2020, sold his first product in July 2020, and formally founded Vego Garden at the end of 2020. *Id.* at 25:8–22. He testified that he started the company because he saw an opportunity for a market for raised garden beds in the United States. *Id.* at 25:23–26:14. According to Mr. Xiong, at that time, there were no major brands selling raised metal garden beds in the United States. *Id.* at 26:5–18.

In a relatively short period of time, Vego Garden's business has grown substantially. Mr. Xiong testified that Vego Garden had over [redacted] in revenue in 2021, around [redacted] in revenue in 2022, and projected revenue of [redacted] for 2023, having booked [redacted] in revenue as of mid-May

2023. Complainant Post-Hearing Br. at 41; Tr. (Xiong) at 33:4–34:6; JX-0013C (identifying Vego Garden sales revenue from January through December 2022); CX-0038C (identifying revenue for January and February 2023).[32] Nearly all of Vego Garden's business in the United States relates to raised metal garden bed products and accessories, accounting for more than 95% of its revenue. Tr. (Xiong) at 27:19–24.[33]

Vego Garden contends that it has a domestic industry through its raised metal garden bed products, which are sold in the United States. Complainant Post-Hearing Br. at 40–43. Because its domestic industry products are manufactured in China, Vego Garden does not rely on domestic manufacturing activity as establishing a domestic industry.[34] Instead, Vego Garden contends that it performs qualifying domestic activities in research and development and testing. *Id*.

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[32] Respondents contend that Vego Garden provided inconsistent revenue numbers. Respondents Post-Hearing Resp. Br. at 38. At the hearing, Mr. Xiong testified that Vego Garden's 2022 revenue was [redacted]. Tr. (Xiong) at 32:3–8. JX-0013C is a spreadsheet produced by Vego Garden identifying "Sales Amount by Item Summary" and identifies revenue of [redacted] for 2022 for the identified raised metal garden products. Mr. Xiong testified that 99% of the products identified on that spreadsheet were sold in the United States, with the remainder being sold in Canada or Europe. Tr. (Xiong) at 174:16–175:7. Taking a conservative estimate, the evidence supports that Vego Garden had approximately [redacted] in revenue from the sale of raised metal garden beds in 2022. Respondents also contend that "Complainant's Demonstrative No. 1" contains a different revenue figure. Respondents Post-Hearing Resp. Br. at 38. That demonstrative, however, was not addressed at the hearing and is not on the exhibit list. *See* Exhibit List (Sept. 5, 2023) (EDIS Doc. ID 803757).

[33] Respondents contend that Vego Garden's revenue documents are "poorly drafted based on professional accounting standard" and not "in compliance with industry standard and practice." Respondents Post-Hearing Resp. Br. at 40. Vego Garden's revenue documents (JX-0013C and CX-0038C), however, look very much like those provided by Green Giant. *See* CX-0500 (Lu Dep.) at 59:2–60:20; JX-0045; and JX-0046.

[34] Respondents contend that because this investigation was instituted under § 337(a)(1)(A), "to prevail Complainant must thus engage in production of the domestic industry products in the United States." Respondents Post-Hearing Br. at 33. This is wrong. Domestic manufacture of the alleged domestic industry product is not required for a complainant to demonstrate a domestic industry. *See Foodservice Equipment*, Inv. No. 337-TA-1166, Order No. 15 at 10 (Feb. 4, 2020) (EDIS Doc. ID 701355).

b) Vego Garden's Research and Development and Testing Activities

Vego Garden maintains a 45,000 square foot combined office and warehouse facility in Houston as well as a two-acre farm outside of Houston. Tr. (Xiong) at 35:11–22, 36:12–21; Complainant Post-Hearing Br. at 41. Vego Garden contends that its qualifying domestic industry activities occur at both facilities. Tr. (Xiong) at 41:19–25 (explaining that employees in customer support, marketing and sales, and executive departments are involved in research and development and testing activities related to its domestic industry products work from both its office and warehouse facility and from the farm).

As depicted below, as of the end of 2022, Vego Garden had 47 employees in the United States.[35] Those employees were members of six departments, namely, customer support, sales and marketing, operations, warehouse, accounting, and executive.

Department	Number of Employees	Payroll
Customer Support	16	$396,000
Sales and Marketing	10	$443,000
Operations	7	$256,000
Warehouse	7	$200,000
Accounting	4	$115,000
Executive	3	$518,000

CDX-0003 (above, showing number of employees in each department and payroll totals for 2022); Tr. (Xiong) at 36:22–37:4, 39:9–17, 41:1–18 (identifying departments, employees, and payroll expenses), and 201:19–25 (confirming that above data is for the United States).

[35] As of the hearing, Vego Garden had approximately 65 U.S.-based employees. Tr. (Xiong) at 200:25–201:1.

Mr. Xiong testified that U.S. employees in three of Vego Garden's six departments engage in research and development and testing activities, namely in the customer support, sales and marketing, and executive departments. *Id.* at 37:5–22. Mr. Xiong testified that he and his co-founders spent five to six months on research before entering the market, including creating prototypes. *Id.* at 26:19–27:18 and 28:2–6. He also testified that he developed the alleged trade secrets between 2020 and 2021. *Id.* at 29:13–15. Mr. Xiong also explained that the research and development activities of the customer support and marketing departments involve interfacing with customers, collecting feedback and using that feedback so that Vego Garden knows how to improve its products as well as collecting market intelligence about pricing so that Vego Garden knows how to improve and position its product line. *Id.* at 37:23–38:24. He also testified that all three of the customer support, sales and marketing, and executive departments identify opportunities for new products. *Id.* at 38:1–39:2. The evidence also shows that research and development and testing activities took place in the United States with respect to each of Vego Garden's alleged trade secrets. *Id.* at 61:13–62:1 (testing of protective film used on raised garden bed products), 58:13–59:9 (research and development of 8-inch product), and 62:14–64:1 (design of new bending machine by Mr. Xiong).

Further with respect to its domestic research and development and testing activities, Vego Garden contends that it uses the farm it purchased in 2022 to test its prototypes and subject its raised garden bed products to real-life conditions. Complainant Post-Hearing Br. at 41; Tr. (Xiong) at 36:12–21 (use of the farm for testing activities), 109:1–12 (performing product testing on the farm), 206:10–14 (explaining that the farm is where Vego Garden "can put the garden bed into use and see how long it's going to hold . . . during the normal usage"). Mr. Xiong testified that the farm is also used to create marketing and social media content. Tr. (Xiong) at 36:12–21.

The evidence demonstrates that the research and development and testing activities identified by Vego Garden all relate to its domestic industry products, namely its raised metal garden bed products. *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22. Vego Garden's identified activities, therefore, have a close relationship to its domestic industry products. *Cast-Iron Stoves*, Inv. No. 337-TA-69, Comm'n Op. at 11.

Respondents contend that "Complainant's claim of farm for products testing and research and development is considered new evidence and theory that was not disclosed in its pre-hearing brief" and was therefore waived. Respondents Post-Hearing Resp. Br. at 5; *see also id*. at 38. This is wrong. When addressing its alleged domestic industry in its pre-hearing brief, Vego Garden stated that it "has also invested in a research and development facility located outside of Houston, Texas, where Vego tests its designs and creates marketing and advertising materials." Complainant Pre-Hearing Br. at 29; *see also* Staff Post-Hearing Resp. Br. at 14, n.8 and SX-0005C.003 (Vego Garden supplemental response to Staff interrogatory no. 3, identifying "2 acre test facility outside of Houston"). Because Vego Garden timely identified its farm and activity on that farm as part of its alleged domestic industry, this contention was not waived.[36]

Vego Garden does not track the specific amounts of time its employees spend on its research and development and testing-related activities. Mr. Xiong, however, provided a general allocation of time percentages for the relevant departments based on his knowledge of his business. *See* Tr. (Xiong) at 106:18–22 (testifying that Vego Garden has a general idea how much time people are spending on research and development activities). Mr. Xiong estimated that the

[36] Respondents also argue that "Complainant's reliance on activities such as inspections, warehousing of imported products, and sales and marketing is improper." Respondents Post-Hearing Resp. Br. at 37. Vego Garden, however, is not relying on such activities. *See* Complainant Post-Hearing Br. at 40–43.

customer support and sales and marketing departments each spend approximately 20% of their time on research and development and testing-related activities with respect to Vego Garden's raised metal garden bed products, while the executive department spends from 20-50% of its time on those types of activities. *Id.* at 37:5–22; Complainant Post-Hearing Br. at 41.

Respondents contend that it is unknown how Mr. Xiong "estimated the customer support and sales and marketing department each spend approximately 20% of their time on R&D and testing-related activities while the executive department spends from 20-50% of its time on these activities." Respondents Post-Hearing Resp. Br. at 40–41. Respondents also argues that Mr. Xiong is not qualified to provide those estimates because he "is not a finance major" and is instead a "mechanical and electrical engineer" meaning that "his calculation and tracking method is questionable given his major probably does not offer any classes regarding finances and economics." *Id*. at 41; *see also id*. at 42.

Respondents did not challenge Mr. Xiong's estimates or methodology at the hearing. *See* Tr. (Xiong) at 78–208. In addition, as CEO, Mr. Xiong is in a position to know and provide estimates on the amount of time Vego Garden employees spend on certain activities. No special expertise, including a background in finance or economics, is required to do so. In addition, Vego Garden is a small company, and all U.S. employees are located in the same geographic region, sharing space at its office and warehouse facility and/or on the farm. In addition, as a founder of the company and a member of its executive department, Mr. Xiong is in a position to know how much time employees in the U.S. as a whole and members of the executive group specifically spend on research and development and testing activities. Given the facts here, I find that Mr. Xiong's estimates are credible and reasonable.

Using the time estimates provided by Mr. Xiong and the 2022 employee headcounts in each of the relevant departments (16 employees in customer support, 10 employees in sales and marketing, and 3 executives), the evidence supports that in 2022, Vego Garden's research and development and testing-related labor expenses were between $271,400 and $426,800. Complainant Post-Hearing Br. at 42; Staff Post-Hearing Br. at 55. In 2022, Vego Garden's total payroll costs for its 47 employees were around $1.9 million. CDX-0003; and Tr. (Xiong) at 41:9–10. Those amounts are shown in the table below.

Department	Number of Employees	2022 Payroll	Percent R&D and Testing	Attributable Payroll
Customer Support	16	$396,000	20%	$79,200
Sales and Marketing	10	$443,000	20%	$88,600
Executive	3	$518,000	20–50%	$103,600 – $259,000[37]
TOTAL		$1.928M		$271,400 – $426,800

With respect to domestic expenditures on space that Vego Garden used to perform its qualifying activities in 2022, Mr. Xiong testified that Vego Garden paid $240,000 in 2022 to lease its office and warehouse facility and $694,000 to purchase the two-acre farm. Tr. (Xiong) at 35:17–22.[38] He also testified that in 2022 Vego Garden invested approximately $94,000 in maintenance

[37] This range is consistent with other evidence identifying the salaries of those primarily responsible for research and development of Vego Garden's raised metal garden bed products. SX-0004C.016 (response to interrogatory no. 24).

[38] Respondents point to what they contend are inconsistencies in the amount Vego Garden spent on the lease for its Houston office and warehouse facility, noting that Vego Garden provided a higher number in discovery for its lease expenses since 2020. Respondents Post-Hearing Resp. Br. at 36. That higher number, however, is not relied upon by Vego Garden.

and other costs relating to the farm. Tr. (Xiong) at 35:23–36:5.[39] As noted by the Staff, the headcounts and percentages Vego Garden uses to allocate payroll expenses to research and development and testing-related activities could also be used to allocate the 2022 rental expense of its Houston office and warehouse facility. Staff Post-Hearing Br. at 55, n.23. Respondents appear to agree. Respondents Post-Hearing Resp. Br. at 35 (lease expenses should be allocated to qualifying domestic industry activities). Doing so, the Staff estimates that 17% of Vego Garden's U.S. employees in 2022 engaged in research and development and testing activities and applying that percentage to the $240,000 in 2022 lease expenses yields $40,800 attributable to research and development and testing lease expenses. I agree that Vego Garden's lease expenses should be allocated to include only those relating to its qualifying research and development and testing activities (and to thus exclude expenses relating to, among other things, warehousing products before sale).[40] I also agree with the estimate identified by the Staff.

Respondents challenge the allocation of qualifying salary and property expenditures because Vego Garden "shares the same employees with another company Worldlink, and Worldlink sells other products on Amazon." Respondents Post-Hearing Resp. Br. at 39; *see also id*. at 36 and 37. Mr. Xiong testified, however, that Worldlink is the predecessor company to what is now known as Vego Garden. Tr. (Xiong) at 25:12–22 (Worldlink made the first sales of raised metal garden bed products before Vego Garden was formally founded), at 94:7–95:12 (Worldlink

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[39] Mr. Xiong also testified that Vego Garden plans to expand the farm by three acres, which it will purchase for $600,000. Tr. (Xiong) at 36:6–11.

[40] Respondents point to other expenditures identified by Vego Garden in discovery ("services, including shipping," "Warehouse fixtures and equipment," and "Office equipment"), asserting those expenditures are "nothing different from being an importer." Respondents Post-Hearing Resp. Br. at 36. Vego Garden, however, does not rely on those expenditures in arguing that it has a domestic industry. Complainant Post-Hearing Br. at 40–43.

made the early sales of raised metal garden bed products before all its employees became employees of Vego Garden), and at 95:18–22 (“[Worldlink is] the same group of people. And it is correct to say that Worldlink is part of Vego Garden.”). Mr. Xiong also testified that Vego Garden’s Amazon store sells a Worldlink body fat scale, Tr. (Xiong) at 163:22–164:19, but the revenue information Vego Garden provided identifies revenue for only Vego Garden’s raised metal garden bed products. *See, e.g.*, JX-0013C, CX-0038C. In addition, the evidence shows that the research and development and testing activities that Vego Garden performs with respect to its raised metal garden bed products are unique to those products and do not apply to any body fat scales of Worldlink. I therefore find that the research and development and testing activities identified with respect to Vego Garden’s raised garden bed products apply only to those products as do the qualifying expenditures relating to those activities.

Based on the purpose and work done at Vego Garden’s farm, I agree with the Staff that it is appropriate to allocate the entirety of the 2022 farm purchase ($694,000) and related expenses ($94,000) to Vego Garden’s research and development and testing-related investments in its domestic industry products. Staff Post-Hearing Br. at 55–56, n.23.

The evidence thus supports the following property-related expenses in 2022 of Vego Garden with respect to its research and development and testing activities:

Expense	**2022 Amount**	**Percent Attributable**	**Attributable Amount**
Lease (office/warehouse)	$294,000	17%	$40,800
Farm purchase	$694,000	100%	$694,000
Farm costs	$94,000	100%	$94,000
TOTAL			$828,800

Vego Garden contends that in 2022, it also incurred "non-real-estate, non-payroll R&D expenses" relating to new product research and development of approximately $467,000. Complainant Post-Hearing Br. at 42; Tr. (Xiong) at 42:4–9. While Mr. Xiong characterized those expenses as relating to new product research and development, it is not clear what activities are included in these expenses. There is evidence, however, that at least some of these expenses are related to Vego Garden's engagement of a lab at Texas A&M University (in College Station, Texas) to test the corrosion resistance of the metal materials in its raised garden bed products. Tr. (Xiong) at 205:19–206:9; SX-0004C.008; and SX-0022C. There is also evidence that Vego Garden invests in additional outside research by providing its products to gardeners to have them test its raised metal garden beds under real-world conditions and provide feedback. Tr. (Xiong) at 206:6–9 (characterizing this as "real life research"). Because Vego Garden did not provide details about its $467,000 investment in research and development and testing expenses in 2022 but recognizing that Vego Garden provided evidence of exemplary ones of such expenses, the Staff proposed reducing by half the amount of the expenses Vego Garden identified. Staff Post-Hearing Br. at 57, n.25 and n.26. Given the substantial nature of the activities specifically identified by Vego Garden, I agree with the Staff's estimate.

Based on the evidence, I conclude that in 2022, Vego Garden expended between $1,333,700–$1,489,100 in expenses related to payroll, property and expenses for research and development and testing activities in the United States relating to its domestic industry products. This is shown in the table below:

Item	Amount
Payroll	$271,400–$426,800
Property	$828,800
Expenses	$233,500
TOTAL	$1,333,700– $1,489,100[41]

Respondents do not contest that Vego Garden undertakes research and development and testing activities in the United States relating to its raised metal garden bed products, instead arguing that there "was no evidence presented at the Hearing that would corroborate Complainant's testimony" and that "the numbers that Complainant asserted in its pre-hearing brief and at the Hearing" "are mere speculation without any evidence to corroborate." Respondents Post-Hearing Br. at 1 and 32.[42] The testimony that Mr. Xiong provided, however, is evidence. Further, "there is no Commission requirement that sworn witness testimony directed to the domestic industry requirement cannot be credited without further corroboration by underlying documentation. Instead, all that is required is the use of reasonable allocations for the purposes of establishing the economic prong of the domestic industry requirement." *Certain Solid State*

[41] As noted, Respondents challenge the accuracy of the numbers provided by Vego Garden. *See* Respondents Post-Hearing Resp. Br. at 33–42; *see also* Respondents Post-Hearing Br. at 32. Respondents contend that Vego Garden's figures are "problematic" and analogize them to those addressed by the Commission in *Certain Airless Paint Spray Pumps and Components Thereof*, Inv. No. 337-TA-90. Respondents Post-Hearing Resp. Br. at 38–39. There, the Commission noted that accounting figures are "singularly subject to manipulation, particularly in a default case." USITC Pub. No. 1199 (Nov. 1981) Comm'n Op. at 14 (EDIS Doc. ID 267011). In a default situation, the issue identified by the Commission is more acute because there is no opposing party to challenge information provided by the complainant. That was not the situation here. Respondents were available to challenge the numerical evidence provided by Vego Garden at the hearing, but by and large they did not. *See* Tr. (Xiong) at 78–208.

[42] Respondents point to RX-0082C when contesting the information Vego Garden provided on its research and development costs. That item, however, is not an exhibit. *See* Respondents' Exhibit List (Sept. 6, 2023) (EDIS Doc. ID 803915).

Storage Devices, Stacked Electronic Components, and Products Containing Same, Inv. No. 337-TA-1097, Comm'n Op. at 21–22 (Jun. 29, 2018) (citations omitted) (EDIS Doc. ID 649139).

I agree with the Staff that Respondents have not offered any persuasive evidence or argument demonstrating that Mr. Xiong's testimony was not credible. Staff Post-Hearing Resp. Br. at 15. In addition, given the status of Vego Garden as a relatively new and small company, the evidence provided by Vego Garden regarding its domestic expenditures was reasonable and reliable. Further, the allocations provided by Vego Garden are reasonable. Vego Garden's estimates of the number of its U.S. employees that spend time on research and development and testing activities are reasonable given its overall workforce as are the estimates of the amounts of time those employees spend on those activities relative to their overall time.

Respondents also contend that "investments in design cannot support the existence of a domestic industry under § 1337(a)(1)(A)." Respondents Post-Hearing Br. at 32, *citing Schaper*, 717 F.2d at 1373. In *Schaper*, as here, the domestic industry products were manufactured outside the United States. That, however, did not end the inquiry. The design activities relied on for the alleged domestic industry in *Schaper* were "general" and not related to the asserted patent. 717 F.2d at 1371, n.7. In addition, the Federal Circuit concluded that the complainant had not shown any significant activities in the United States beyond those of a mere importer. *Id*. at 1372–73. In doing so, the court noted that the complainant had not shown that its research and development activities were connected to the alleged domestic industry product. *Id*. at 1371, n.7.

In contrast, the evidence supports that the research and development and testing activities performed by Vego Garden in the United States are not those of a mere importer and involve product design and development and testing directly connected to the domestic industry products. Respondents contend that Vego Garden fails to distinguish itself from a mere importer because it "failed [to] present evidence regarding the activities of a U.S. importer in the relevant industry." Respondents Post-Hearing Resp. Br. at 37. I disagree. A mere importer would not perform research on and design the domestic industry products. A mere importer would not have a farm at which it tested the domestic industry products and developed new domestic industry products. A mere importer would not work with an outside lab to test its products. A mere importer would not work with users to test products and receive input about its products to improve and develop new products. The evidence thus demonstrates that Vego Garden's non-manufacturing activities within the United States are well beyond those of a mere importer. I therefore conclude that Vego Garden has demonstrated qualifying domestic industry expenditures in research and development and testing-related activities.

2. Significance of Investments in and Expenditures on Qualifying Activities

Having determined the investments and expenditures made with respect to qualifying activities, the Commission determines whether they are "sufficient to constitute a domestic industry." *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22. The existence of a domestic industry is "not based on the amount of the investment divorced from the circumstances of a particular case." *Certain Beverage Dispensing Systems and Components Thereof*, Inv. No. 337-TA-1130, USITC Pub. No. 5083 (Jun. 2020), Comm'n Op. at 18 (EDIS Doc. ID 706256). Instead, the significance or substantiality of domestic industry expenses are evaluated "based on a proper contextual analysis in the relevant timeframe such as in the context of the complainant's or its licensee's operations, the marketplace, or the industry in question." *Id*. (internal quotations omitted).

In doing so, the Commission has looked to "several different contextual indicators," including, in appropriate circumstances, "comparing complainant's domestic expenditures to its foreign expenditures" or considering "the value added to the article in the United States by the domestic activities." *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 22. Respondents contend that Vego Garden cannot show that its domestic industry is significant because it "failed to provide any testimony [or] evidence as to how it adds value to the U.S. domestic industry." Respondents Post-Hearing Resp. Br. at 41. While demonstrating the value added in the United States to a product manufactured abroad is a common way to demonstrate domestic industry, it is not required. *Certain Dynamic Random Access Memories, Components Thereof and Products Containing Same*, Inv. No. 337-TA-242, USITC Pub. No. 2034 (Nov. 1987), Comm'n Op. at 67–68 (EDIS Doc. ID 217491). Other contextual indicators may be appropriate given that determining the nature and significance of a complainant's domestic activities is highly fact specific and can depend on the nature of the specific industry. *Bone Cements*, Inv. No. 337-TA-1153, Comm'n Op. at 27.

While its domestic industry products are manufactured in China, Vego Garden argues that its domestic research and development and testing-related investments are a significant portion of its overall expenses. Complainant Post-Hearing Br. at 42–43. The Staff agrees. Staff Post-Hearing Br. at 57–58. Vego Garden contends that its total 2022 expenses were approximately $7.3M. Complainant Post-Hearing Br. at 43; and Tr. (Xiong) at 42:1–3. Using the range of qualifying expenses of $1,333,700–$1,489,100, Vego Garden's 2022 qualifying research and development and testing expenses are between 18.2 and 20.0% of its total expenses. The domestic industry products (and the accused products) are relatively simple – raised metal garden beds – constructed of metal panels that are bolted together. They are mechanical and have few constituent components. I find that the marketplace for these products does not, and due to price points cannot, require intense research and development costs. As a result, the benchmark for "substantial" research and development investment is relatively low. *Certain Mobile Device Holders and Components Thereof*, Inv. No. 337-TA-1028, USITC Pub. No. 4959, Initial Determination at 79 (Sept. 2019), *aff'd in relevant part*, Comm'n Op. at 19 (EDIS Doc. ID 695068). In that context, Vego Garden's range of qualifying expenses is quantitatively significant.[43]

Other contextual comparisons support the quantitative significance of Vego Garden's qualifying expenditures. For example, Mr. Xiong testified that Vego Garden has an office and employees in Shenzhen, China.[44] Tr. (Xiong) at 97:1–98:11. In 2022, Vego Garden employed around 10 people in that office and currently employs around 35 people there. *Id.* at 98:8–11 and 200:21–24. The number of U.S.-based employees in 2022 and at the time of the hearing were 47 and 65, respectively. *Id.* at 98:10–11 and 200:25–201:1. In addition to having larger staff in the United States, Vego Garden's domestic research and development and testing payroll expenses in 2022 of $272,400–$426,800 was close to and likely greater than its entire payroll in China in 2022, supporting the quantitative significance of those expenditures. *Id.* at 202:1–9 (testifying that in

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[43] In other investigations, overall revenue has been compared with qualifying expenditures. *Foodservice Equipment*, Inv. No. 337-TA-1166, Comm'n Op. at 13. Using that as a basis of comparison, Vego Garden's qualifying expenses are between [redacted] of its overall revenue. Complainant Post-Hearing Br. at 41; Tr. (Xiong) at 33:4–34:6; JX-0013C (identifying Vego Garden sales revenue from January through December 2022 of approximately [redacted]). Given the simplicity of the products and the low benchmark for substantial research and development and testing costs, the comparison also supports that Vego Garden's qualifying expenses were quantitatively significant.

[44] *See* Order No. 26 (EDIS Doc. ID 797938) granting Motion No. 1334-028 to correct errors in the hearing transcript, including changing "Shunchuen" to "Shenzhen" at Tr. (Xiong) at 97:2 and at 97:5.

2022 Vego Garden's total payroll expenses for its China-based employees was between $200,000 and $300,000).

The evidence also shows that Utopban's revenue for 2022 was approximately 8.1 million RMB, of which 90% was related to Green Giant's raised metal garden bed products imported into the United States. Tr. (Li) at 325:25–326:18; *see also* CX-0081C.[45] Vego Garden's qualifying domestic industry expenses, therefore, are greater than Utopban's entire 2022 revenue as well as its 2022 revenue in the United States. Vego Garden's qualifying range of expenditures of $1,333,700–$1,489,100 for 2022 is also greater than the "extraterritorial R&D expenses of $387,000 related to the film and machine trade secrets." Complainant Post-Hearing Br. at 42, *citing* Tr. (Xiong) at 30:23–31:17 (discussing percentages of indirect development costs paid to Vego Garden's manufacturer in China). These comparators also support the quantitative significance of Vego Garden's qualifying expenditures.

As to the qualitative nature of Vego Garden's qualifying expenditures, Mr. Xiong testified that Vego Garden's expenditures were necessary to get his new business started and remain necessary to support ongoing product development and maintenance, supporting that the expenses were qualitatively significant. Tr. (Xiong) at 26:19–39:17; 41:19–42:9; 47:23–48:8; and 100:7–19. In addition, the evidence supports that the expenses are directly tied to the domestic industry products, that Vego Garden's domestic industry products are at least partially designed, developed, and tested in the United States, and that U.S.-based Vego Garden employees are engaged in research and development and testing of the actual domestic industry products, including soliciting

[45] Using an average exchange rate for 2022 of 1RMB = 0.1484USD, available from the Wall Street Journal, revenue of Utopban in 2022 for U.S. sales of raised garden bed products was $1,081,836.

technical customer feedback from U.S. customers to improve Vego Garden's line of domestic industry products and develop new products for the U.S. market.

In addition, while Vego Garden did not create the market in the United States for raised garden bed products, the evidence supports that Vego Garden outsells its competitors in the United States. For example, Birdies is a manufacturer of raised garden beds based in Australia, which distributes raised garden bed products in the United States. According to Mr. Xiong, Birdies has around 25–33% of Vego Garden's U.S. revenue. Tr. (Xiong) at 42:16–23. Another competitor, Olle Garden, has about 10% of Vego Garden's U.S. revenue.[46] *Id.* at 42:24–43:5. Mr. Xiong testified that Green Giant, which entered the U.S. raised garden market after Vego Garden, has U.S revenue of about 30% those of Vego Garden. *Id.* at 43:6–23. As a result, the evidence supports that although it is a relatively young company, Vego Garden's revenue is greater than its competitors, individually and collectively. That success can, at least in part, be attributed to Vego Garden's domestic expenditures on research and development and testing. Viewing Vego Garden's U.S. expenditures in the context of the raised garden bed market in the United States as a whole supports that its expenditures are qualitatively significant. Vego Garden has the largest revenues of any of its competitors and while at least Birdies may distribute its products in the United States (and thus expend at least some revenue to do so), there is no evidence that any of Vego Garden's competitors have established businesses in the United States or perform research and development or testing activities in the United States. This supports that Vego Garden's expenditures are qualitatively significant.

[46] Respondents contend that they have "not engaged in significant business activities in the United States since there are much more competitors in the market that directly compete with Complainants." Respondents Post-Hearing Br. at 38. Respondents, however, provided no specific evidence on the raised metal garden bed market in the United States.

I find that Vego Garden's investments in research and development and testing-related activities and facilities are both quantitatively and qualitatively significant. I therefore conclude that Vego Garden has satisfied the domestic industry requirement under 19 U.S.C. § 1337(a)(1)(A)(i).

B. Injury to the Domestic Industry

A complainant alleging unfair methods of competition or unfair acts under 19 U.S.C. § l337(a)(l)(A)(i) must demonstrate substantial injury or the threat of substantial injury to an industry in the United States.[47] Such injury must be shown by a preponderance of the evidence. *Fischer & Porter Co., Inc. v. Int'l Trade Comm'n*, 831 F.2d 1574, 1581 (Fed. Cir. 1987). The statutory language requires "'a link' between the alleged injury and the domestic industry." *Foodservice Equipment*, Inv. No. 337-TA-1166, Comm'n Remand Op. at 13. That is, the injury must be *to* the domestic industry. Separately, a complainant is required to show "a causal nexus between the unfair acts of the respondents and the injury." *Id*. at 13, n.10, *citing Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 60–61. Whether there is a substantial injury to Vego Garden's domestic industry is addressed first, followed by whether there is a causal nexus between the alleged unfair acts of Respondents, namely trade secret misappropriation and false advertising, and the injury to Vego Garden.

1. Vego Garden Has Demonstrated Substantial Injury to Its Domestic Industry

Substantial injury may be established through a broad range of indicia, such as "the volume of imports and their degree of penetration, complainant's lost sales, underselling by respondents,

[47] Vego Garden does not allege injury under §§ l337(a)(1)(A)(ii) or (iii). *See* Complainant Post-Hearing Br. at 43, alleging injury only under section 337(a)(1)(A)(i).

reductions in complainants' [] production, profitability and sales, and harm to complainant's good will or reputation that have adverse effects on the domestic industry established in the investigation." *Foodservice Equipment*, Inv. No. 337-TA-1166, Comm'n Remand Op. at 16 (internal citations and quotations omitted); *see also Woven Textile Fabrics*, Inv. No. 337-TA-976, Initial Determination at 9.

The Commission does not require direct evidence of substantial harm to the complainant's domestic activities and investments. *Foodservice Equipment*, Inv. No. 337-TA-1166, Comm'n Remand Op. at 13. Thus, while a complainant can "present direct evidence of substantial harm or threat to their qualifying domestic activities and investments, such as curtailment or abandonment of activities in the presence of a respondent's unfair imports, a complainant can also present circumstantial evidence from which such substantial injury or threat to these activities and investments can be inferred." *Id*. at 14. "Depending on the facts of a case, it may be appropriate to use proof of lost sales and diminished profits to show that a domestic industry has been injured or threatened with injury even where a domestic industry was found based on non-manufacturing activities, because the evidence supports an inference that such lost sales and profits have had or will have the effect of substantially harming or threatening the domestic injury that was found to exist based on its qualifying U.S. activities and investments." *Id.*, *citing Akzo N.V. v. Int'l Trade Comm'n*, 808 F.2d 1471, 1487–88 (Fed. Cir. 1986) (considering respondent's intent and capacity to enter the U.S. market, complainant's resulting loss of revenue and a probable price reduction, diminished profits, lower return on investments, and reduced sales upon entry of respondent's products into the United States as indicative of threat of injury to the domestic industry, where the industry made substantial upfront investments in research and development and expected to recoup those investments through sales of its products); *Corning Glass Works v. Int'l Trade Comm'n*, 799 F.2d 1559, 1569 (Fed. Cir. 1986) (acknowledging that lost sales can "retard [the complainant's] growth" and its "recoupment of research and development costs" to show substantial injury to a domestic industry when supported by record evidence that respondent's sales are more than de minimis and there is a nexus between respondent's sales and the injury).

As an initial matter, Respondents contend that there was no injury to Vego Garden because Vego Garden "could not meet the market." Respondents Post-Hearing Br. at 34. As support, Respondents state that the Mr. Xiong contacted Mr. Xie, one of the founders of Green Giant, to discuss Green Giant's manufacturing capabilities. *Id.*; and CX-0037. Respondents infer from this discussion that Vego Garden could not satisfy market demand and thus was not harmed by Respondents' entry into the market.

Mr. Xiong testified that he contacted Mr. Xie at the request of Mr. Yu of Shun Chuen because Mr. Yu wanted Mr. Xiong to "give some business to Mr. Xie." Tr. (Xiong) at 52:20–23. During the call, Mr. Xiong stated that Vego Garden needed help with "15 to 16 containers." CX-0037 at No. 42. While the evidence supports that Mr. Xiong may have been interested in finding another supplier for raised metal garden bed products, the evidence supports that in calling Mr. Xie, Mr. Xiong was interested in finding out if Vego Garden's confidential information had been taken. Tr. (Xiong) at 53:7–12; *see also* CX-0037. At the hearing, Mr. Xiong testified that Vego Garden has "the manufacturing and sales capacity to supply the entire U.S. market for metal raised garden beds." Tr. (Xiong) at 48:18–21. The evidence thus does not support that there was no injury to Vego Garden because it "could not meet the market."

Vego Garden maintains that Respondents' misappropriation and unfair acts in the importation of the accused raised metal garden beds have "substantially and irreparably injured and threatens [its] domestic industry." Complainant Post-Hearing Br. at 43. Vego Garden specifically contends that the evidence demonstrates substantial injury or threat of injury to its domestic industry by way of: (1) price erosion; (2) lost sales and lost revenue; and (3) lost market position and damage to reputation. Complainant Post-Hearing Br. at 43–46. Each is discussed in turn.

a) Price Erosion

The evidence demonstrates that Respondents were able to enter the raised metal garden bed market quickly and offer their products at lower prices than Vego Garden. Tr. (Xiong) at 44:4–16; *id.* at 45:23–46:5 (testifying that Respondents' products are sold at prices from 10–40% lower than those of Vego Garden); CX-0501 (Li Dep.) at 32:1–2 (Respondents' raised metal garden bed products are priced below Vego Garden's prices); CX-0075 – CX-0078 (Utopban/Vegega product webpages showing discounted prices); CX-0003 (customer asking Vego Garden to match Vegega's lower price). Mr. Xiong testified that as a result, Vego Garden was forced to cut the prices of its own products "in order to compete against [Respondents]." Tr. (Xiong) at 44:21–45:1; *see also id.* at 45:18–22 ("Because they enter[ed] into the market [at] a lower cost. So we had [to] lower our price in order to compete against them."). The evidence supports that Respondents' entry into the market and lower prices forced Vego Garden to reduce its prices, thus injuring Vego Garden.

b) Lost Sales and Revenue

Vego Garden contends that it lost sales and revenue to Respondents. Complainant Post-Hearing Br. at 43–44. To consider whether lost sales and revenue are attributable to Respondents, the entirety of the market should be considered. *Crawler Cranes*, Inv. No. 337-TA-887, Initial Determination at 4; *Certain Indus. Automation Sys. & Components Thereof*, Inv. No. 337-TA-

1074, Initial Determination at 58-60 (Oct. 23, 2018) (EDIS Doc. ID 661890), *unreviewed by*, Comm'n Notice (Dec. 20, 2018) (EDIS Doc. ID 664823).

Mr. Xiong testified that Vego Garden's competitors, other than Respondents, are Birdies and Olle Gardens, with revenues of approximately between 25–33% and 10%, respectively, of Vego Garden's revenues. Tr. (Xiong) at 42:10–43:5; and Complainant Post-Hearing Br. at 43. The evidence supports that Birdies and Olle Gardens have been in the raised metal garden bed industry longer than Vego Garden. Tr. (Lu) at 359:7–361:9; *see also* RX-0015; and RX-0017. Upon entry into the United States market after Vego Garden, Vego Garden contends that revenues from Respondents' products became around 30% of Vego Garden's revenue. Tr. (Xiong) at 43:15–23 and 45:5–8.

Respondents contend that Mr. Xiong's estimate of their revenue "is pure speculation" and that "there are no evidence presented at the Hearing to support such claim nor was any evidence produced during fact discovery." Respondents Post-Hearing Resp. Br. at 45. As a founder and the CEO of Vego Garden, however, Mr. Xiong is in a position to know or estimate the revenue of Vego Garden's competitors. In addition, to the extent Respondents wanted to contest Mr. Xiong's estimate of their revenue, they have this information.

Based on the market participants' positions in the market, Vego Garden contends that when Respondents entered the market, they (Respondents) captured around [redacted] in revenue in 2022. Based on the Respondents' position in the market, Vego Garden contends that it lost [redacted] of that revenue to Respondents in 2022. Complainant Post-Hearing Br. at 43–44. The Staff agrees with these estimates. Staff Post-Hearing Br. at 60–61.

Other record evidence supports lost revenue to Vego Garden from Respondents' sales. Tr. (Li) at 325:25–326:18; CX-0081C; and JX-0044 (Utopban); CX-0500 (Lu Dep.) at 59:2–60:20;

JX-0045; and JX-0046 (Green Giant). Specifically, Mr. Li testified that Utopban placed its first order with Green Giant for raised metal garden bed products in the first quarter of 2022. CX-0501 (Li Dep.) at 77:17–25. The sales information provided by Green Giant shows a first order by Utopban (Vegega) in May 2022. JX-0046. Information provided by Utopban indicates that its revenue for 2022 was approximately 8.1 million RMB, of which 90% was related to importation of raised metal garden bed products into the United States. Tr. (Li) at 325:25–326:18; and CX-0081C. Using an average exchange rate for 2022 of 1RMB = 0.1484USD, available from the Wall Street Journal, Utopban's revenue in 2022, starting in May, for its U.S. sales of raised metal garden bed products was $1,081,836. CX-0081C.

Aggregate revenue numbers for Green Giant for its sales to Utopban do not appear to be in the record. *See* JX-0044; JX-0045; and JX-0046. Green Giant indicated, however, that the only company it has directly imported to is Utopban and that it does not track U.S. sales to any entity other than Utopban. SX-0033.011–12. In its response to the Amended Complaint, Green Giant stated that the value of its accused products imported into the United States from January to October 2022 was approximately 73.8 million RMB. Ex. A to Green Giant Response to Amended Complaint, ¶ a. Based on Green Giant's statement that it only tracks U.S. exports to Utopban, the record supports that the entirety of the value of imported products reported by Green Giant is attributable to Utopban. Using an average exchange rate for 2022 of 1RMB = 0.1484USD, available from the Wall Street Journal, the value of Green Giant's imported raised metal garden bed products sold to Utopban was close to $11 million. Based on the Utopban revenue information and the information regarding the value of the Green Giant products sold to Utopban for importation, I find that Mr. Xiong's estimate that Respondents' revenues are about 30% of Vego Garden's revenues is reasonable and credible.

Mr. Xiong also testified that Vego Garden's revenue growth has been slowed by Respondents' entry into the market, but that Vego Garden is able to fully supply the U.S. market, Tr. (Xiong) at 45:2–8 and 48:18–21, supporting that at least some of Respondents' revenue was revenue lost by Vego Garden. Additionally, the evidence supports that once a customer has purchased a raised metal garden bed from one source, they are unlikely to purchase a differently-branded raised metal garden bed or accessories, supporting that additional lost revenue is likely to occur once a customer has selected a brand. *Id.* at 47:8–22; *see also* CX-0501 (Li Dep.) at 67:5–18 (Utopban witness confirming that customers are unlikely to change brands).

Vego Garden also provided evidence of customer confusion caused by Utopban's use of Vego Garden's photographs to advertise its products, supporting that Vego Garden lost sales to Respondents as a result of customers believing that Utopban products were Vego Garden products. *See* Tr. (Xiong) at 44:2–16, 55:6–57:12; CX-0001; CX-0002; CX-0003; and Tr. (Li) at 325:3–20 (Utopban general manager confirming that he was aware of at least a "handful of occasions" of customer confusion). This evidence of confusion supports that Vego Garden lost sales to Respondents.

Mr. Xiong testified that Vego Garden had over [redacted] in revenue in 2021, around [redacted] in revenue in 2022, and projected revenue of [redacted] for 2023, having booked [redacted] in revenue as of mid-May 2023. Complainant Post-Hearing Br. at 41; Tr. (Xiong) at 33:4–34:6; JX-0013C (identifying Vego Garden sales revenue from January through December 2022); CX-0038C (identifying revenue for January and February 2023). The Staff contends that because of its increase in revenue, Vego Garden has not shown a substantial injury to its domestic industry as a result of lost sales and revenue. Staff Post-Hearing Br. at 61. The fact that Vego Garden's revenues did not decrease, however, is not dispositive. *See Corning*, 799 F.2d at 1569 (acknowledging that lost sales can retard growth).

Given the small size of the market (*i.e.*, the small number of market participants), the relatively small size of the other and older market participants, Birdies and Olle Garden, the speed with which Respondents have become a substantial player in the market, and the evidence of confusion between Vego Garden's and Respondents' raised metal garden bed products, notwithstanding that Vego Garden's revenues have increased, I find that the evidence supports a substantial injury to Vego Garden in the form of lost sales and revenue.

c) Brand Harm

Before Respondents' entry into the U.S. market, Mr. Xiong testified that Vego Garden was positioning itself as a medium-to-high-end brand. Tr. (Xiong) at 44:17–20. But because Vego Garden needed to lower its prices to compete with Respondents' lower-priced raised metal garden bed products, Vego Garden argues that its market position has been injured. Complainant Post-Hearing Br. at 44 (arguing that this "necessary price-cutting [in] response to Respondents' unfair competition" has damaged Vego's market position). Vego Garden likewise argues that Respondents' unfair competition has damaged Vego Garden's reputation and brand-power among consumers. Complainant Post-Hearing Br. at 44–45. Mr. Xiong also testified that Vego Garden lost out on investment opportunities from private equity companies because of Respondents' entry into the market. Tr. (Xiong) at 46:6–47:7 (testifying that Vego Garden's credibility, in terms of ability to be profitable in the market, was lost as a result of Respondents' unfair competition). The evidence thus supports that Vego Garden's brand was harmed by Respondents' entry into the market.

d) Conclusion

The evidence demonstrates that Vego Garden has suffered price erosion, lost sales and revenue, and lost market position/brand power. That harm to Vego Garden is to its only business—raised metal garden bed products. As such, that harm is directly linked to Vego Garden's domestic industry, as required by 19 U.S.C. § 1337(a)(1)(A).

2. There Is a Causal Nexus Between Respondents' Unfair Acts and the Substantial Injury to Vego Garden

"When the complainant alleges actual injury, there must be a causal nexus between the unfair acts of the respondents and the injury." *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 61. The complainant must "carry its burden of proving that the respondents' activities are causally related to any 'substantial injury' to the domestic industry." *Certain Drill Point Screws for Drywall Construction*, Inv. No. 337-TA-116, USITC Pub. No. 1365, Comm'n Op. at 20–22 (Mar. 3, 1983) (EDIS Doc. ID 217888).

a) There Is a Causal Nexus Between Green Giant's Trade Secret Misappropriation and Vego Garden's Injury

Vego Garden must demonstrate a causal nexus between Respondents' unfair acts in the importation of raised garden bed products using Vego Garden's misappropriated trade secrets and the injury to its domestic industry. *See Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 61.

There is substantial evidence of a causal nexus between Respondents' trade secret misappropriation and the injury to Vego Garden's domestic industry. Respondents' raised metal garden bed products, which exist solely due to Green Giant's misappropriation of Vego Garden's trade secrets, compete directly with Vego Garden's raised metal garden bed products. Tr. (Xiong) at 42:10–14 (identifying Vegega as a competitor to Vego Garden); Tr. (Xiong) at 43:6–14 (identifying Green Giant customers as competitors in the United States); CX-0501 (Li Dep.) at

35:22–25 (identifying Vego Gardens as selling the same products as Utopban). In *TianRui*, the Federal Circuit agreed that such direct "type of competition . . . is sufficiently related to the investigation to constitute an injury to an 'industry' within the meaning of section 337(a)(1)(A)." 661 F.3d at 1337. The evidence demonstrates that Respondents were only able to get in the market because of the trade secret information acquired by Mr. Lu and provided by Mr. Yu. Indeed, Mr. Yu was introduced to Green Giant because it had "some technical difficulties that [it] could not overcome." CX-0037 at No. 141. When Green Giant wanted to start a competing raised metal garden bed business, the equipment needed to successfully make the product could not be found. *Id.* at No. 67. Green Giant turned to Mr. Yu, who gave Green Giant the information it needed so that Green Giant's products were made "in reference to his standards." *Id.* at No. 81. Mr. Xie, a co-founder of Green Giant admitted to Mr. Xiong that Mr. Yu "was that special helpful man," while also stating, "To tell you the truth, he did help us a lot." *Id.* at No. 85; *see also id.* at No. 71 (Mr. Yu provided "a lot of data"); Tr. (Xiong) at 73:13–17 ("Mr. Xie told me that Mr. Yu did ask him to develop the machines, you know, this product line, and I'm aware that, okay, Mr. Yu does disclose a lot of confidential agreement, confidential information to Green Giant and I was very concerned about that.").

In addition, the evidence demonstrates that, after Vego Garden's trade secret information allowed Green Giant to enter the market quickly, and without incurring the expenses Vego Garden expended in developing its products, the accused raised metal garden bed products were then priced below Vego Garden's products. CX-0501 (Li Dep.) at 31:9–32:2; Tr. (Xiong) at 56:18–57:8. This caused Vego Garden to have to reduce its prices and caused it to miss out on opportunities with private equity firms. Tr. (Xiong) at 45:18–47:7. The evidence thus supports that there is a causal nexus between Respondents' unfair act of trade secret misappropriation and the substantial injury to Vego Garden's domestic industry.

b) There Is a Causal Nexus Between Utopban's False Advertising and Vego Garden's Injury

To demonstrate a violation under section 337(a)(1)(A), a complainant must demonstrate a causal nexus between respondent's unfair acts and its injury. *Rubber Resins*, Inv. No. 337-TA-848, Comm'n Op. at 61. Similarly, "to succeed on a false advertising claim under the Lanham Act, a plaintiff must show, besides the other elements, that it has been or is likely to be injured as a result of a false or misleading statement of fact." *Food Processing Equipment*, Inv. No. 337-TA-1161, Initial Determination at 32, *citing Verisign Inc. v. XYZ.com LLC*, 848 F.3d 292, 298–99 (4th Cir. 2017). Vego Garden thus must show that Utopban's false advertising caused it substantial injury.

The evidence here demonstrates that Utopban's use of Vego Garden's photographs in its advertising on its website and on its Instagram account caused customers to believe they were purchasing Vego Garden products when they were not. The evidence also shows that Utopban's use of Vego Garden's photographs influenced customers' purchasing decisions and that customers purchased Utopban's raised garden beds because of its use of Vego Garden's photographs.

This was shown in communications to Vego Garden. During the period between at least February 2022 through August 2022, when Utopban was admittedly using Vego Garden photographs in its advertising on its website and on its Instagram, customers indicated in communications to Vego Garden that they had or intended to purchase Utopban raised garden beds because of Utopban's use of Vego Garden photographs. CX-0001 (Feb. 2022, Vego Garden responding to customer requesting order confirmation after placing an order through Utopban's website (www.vegega.com): "We looked into Vegega and it looks like they are using most of our pictures from our site" and advising consumer to cancel their order with Vegega); CX-0002 (Apr. 2022, customer communicating with Vego Garden that "I ordered through vegega.com. Looks identical to your product" and "There [sic, their] pics of products are almost identical to yours. I hope its [sic] not a bait and switch situation"); CX-0003 (May 2022, from customer to Vego Garden: "After ordering I realized they were not from your company but from Vegega, a Chinese company. They seem to be the very same beds though" and noting the lower price of Utopban raised metal garden bed products).

In addition, Mr. Li, the general manager of Utopban, testified that he was aware of instances in which customers were confused between Vego Garden products and products marketed by Utopban/Vegega. Tr. (Li) at 325:3–20. Mr. Li testified that users of Utopban's Instagram account asked Utopban, "why are we using someone else's photo to illustrate our own product?" Tr. (Li) at 312:23–313:7. An internal Utopban document confirms confusion between Vego Garden and Utopban. CX-0080C; CX-0501 (Li Dep.) at 45:17–46:2 (confirming that CX-0080C shows that customer was confused between Vego Garden's and Utopban's raised metal garden bed products).

Circumstantial evidence also supports injury to Vego Garden because of Utopban's use of Vego Garden's photographs. The evidence shows that Utopban used Vego Garden's photographs from at least February through August 2022, a period of five months when Utopban and Green Giant were attempting to establish a foothold in the U.S. market. *See* Tr. (Li) at 317:20–23. Mr. Li testified that, immediately upon learning of Utopban's use of Vego Garden's photographs, he instructed his employees to take down the Vego Garden photographs. *Id.* at 312:23–313:7 ("once this was reported to me by our employees, I immediately instructed them to take down those photos within two hours of that alert from the customer or the IG, Instagram user, and it was on the same day, August 3rd"). The immediacy with which Utopban contends it stopped using the Vego Garden photographs upon being told what it must have known when it selected and continued to use those photographs, that consumers would believe Utopban's products were Vego Garden products, supports an inference that Utopban actually knew its use of such photographs injured Vego Garden. Further, the evidence supports that Utopban's use of Vego Garden's photographs to advertise its products caused Vego Garden to lose revenue and profits, caused damage to Vego Garden's reputation, and caused Vego Garden to lose credibility and opportunities with private equity companies. Tr. (Xiong) at 44:12–47:7.

Utopban contends, multiple times, that its use of Vego Garden's photographs was "accidental." Respondents *Abitron* Br. at 3 (EDIS Doc. ID 802113). The evidence does not support this assertion. At the evidentiary hearing, Mr. Li testified that when its raised garden bed business first started, Utopban "didn't have any good looking photos" but "wanted to show the scenarios where these garden beds can be used at or in." CX-0501 (Li Dep.) at 50:21–24. To accomplish this, a Utopban employee found the Vego Garden photographs and used them to "illustrate the [Utopban] products' use case, our products' use case." Tr. (Li) at 312:11–22. The evidence also shows that multiple Utopban customers communicated confusion to Utopban because of its use of Vego Garden photographs. *Id.* at 325:12–13. In addition, Utopban used Vego Garden's photographs for several months at an important time, when it was just entering the market. The evidence does not support that Utopban's use of Vego Garden's photographs to advertise its own products was anything other than a calculated and ultimately successful effort to lead consumers to believe they were purchasing Vego Garden's products when Utopban was launching itself into the market.

As explained in section IX.A.1.b, Vego Garden has demonstrated that it has a domestic industry with respect to its research and development and testing in the United States of its raised metal garden bed products. Utopban's selection and continued use of photographs of Vego Garden's products – the same products that are the subject of Vego Garden's research and development and testing – when it entered the raised metal garden bed market, which caused both Vego Garden and Utopban customers to believe that Vego Garden's products were Utopban's products, demonstrates that there is a causal nexus between Utopban's false advertising and the substantial injury to Vego Garden's domestic industry.

X. CONCLUSIONS OF LAW

1. The Commission has statutory jurisdiction with respect to Vego Garden's allegations of trade secret misappropriation.

2. The Commission has statutory jurisdiction with respect to Vego Garden's allegations of false advertising.

3. The Commission has personal jurisdiction over the parties.

4. The Commission has *in rem* jurisdiction over the accused products.

5. The importation requirement of section 337 is satisfied with respect to both Green Giant and Utopban.

6. Green Giant has misappropriated certain of Vego Garden's trade secrets.

7. Utopban has engaged in false advertising under 15 U.S.C. § 1125(a)(1).

8. Vego Garden has demonstrated that it has a domestic industry with respect to its raised metal garden bed products.

9. Vego Garden has demonstrated substantial injury to its domestic industry.

10. A violation of 19 U.S.C. § 1337 has been shown by the importation and sale of raised metal garden beds and components thereof.

XI. RECOMMENDED DETERMINATION ON REMEDY AND BOND

The Commission has broad discretion in selecting the form, scope, and extent of any remedy. *Viscofan, S.A. v. Int'l Trade Comm'n*, 787 F.2d 544, 548 (Fed. Cir. 1986); *see also Hyundai Electronics Industries Co. Ltd. v. Int'l Trade Comm'n*, 899 F.2d 1204, 1209 (Fed. Cir. 1990). By Commission rule, the administrative law judge must issue a recommended determination on the appropriate remedy if the Commission finds a violation of section 337 and on the amount of bond to be posted by respondents during Presidential review of any Commission remedy. *See* 19 C.F.R. § 210.42(a)(1)(ii). I address these issues below.

A. Limited Exclusion Orders

Section 337(d)(1) provides that "[i]f the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, unless, after considering the [public interest], it finds that such articles should not be excluded from entry." 19 U.S.C. § 1337(d)(1). The Commission is required to issue an exclusion order upon the finding of a Section 337 violation absent a finding that the effects of one of the statutorily-enumerated public interest factors counsel otherwise.[48] *Spansion v. Int'l Trade Comm'n*, 629 F.3d 1331, 1358 (Fed. Cir. 2010).

[48] The issue of public interest was not delegated by the Commission in the Notice of Investigation. *See* 87 Fed. Reg. 63527. Nonetheless, Vego Garden addressed the public interest in its briefing. Complainant Pre-Hearing Br. at 34–36 and Complainant Post-Hearing Br. at 49–51. So did Respondents. Respondents Post-Hearing Resp. Br. at 49–50. Oddly, in addition to addressing public interest on the merits, Respondents contend that "the Commission should not simply

I separately address my recommendations with respect to trade secret misappropriation and false advertising below.

1. Limited Exclusion Order Addressing Trade Secret Misappropriation

As an initial matter, Vego Garden asserted in its pre-hearing brief that "a limited exclusion order of no less than 12 months and no more than 18 months is appropriate." Complainant Pre-Hearing Br. at 32. In its post-hearing brief, Vego Garden contends that "a limited exclusion order of no less than 12 months and no more than 36 months is appropriate." Complainant Post-Hearing Br. at 47. In response to the Staff's argument that it waived the right to argue for an exclusion order beyond 18 months, Staff Post Hearing Br. at 63, n.32, Vego Garden does not dispute what it argued in its pre-hearing brief but contends that the "parties now have the benefit of an evidentiary record developed during the hearing." Complainant Post-Hearing Resp. Br. at 24, n.5. The record developed at the evidentiary hearing on this point, however, is testimony from Vego Garden's CEO, which was uniquely within the control of Vego Garden. I agree with the Staff that Vego Garden has waived any contention that a limited exclusion order of greater than 18 months is appropriate. *See* Order No. 14 at Ground Rule 11.2.

On the merits, the duration of a limited exclusion order in an investigation involving trade secret misappropriation is set as the time it would have taken to independently develop the trade secrets. *Rubber Resins*, Inv. No. 337-TA-849, Comm'n Op. at 82. Respondents contend that Vego

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delegate the public interest determination to the Administrative Law Judge without proper consideration." *Id*. at 49. The Commission has made clear that when public interest is not delegated "the ALJ [i]s not authorized to make findings or recommendations relating to public interest." *Certain Automated Put Walls and Automated Storage and Retrieval Systems, Associated Control Software, and Component Parts Thereof*, Inv. No. 337-TA-1293, Comm'n Op. at 29, n.25 (Jul. 31, 2023) (EDIS Doc. ID 802614) (*Automated Put Walls*). Because public interest was not delegated, I do not address the private parties' public interest arguments.

Garden did not provide evidence regarding how long it would have taken a company in their position to have independently developed Vego Garden's trade secrets and only provided evidence of how long it took Vego Garden to develop its trade secrets. Respondents Post-Hearing Resp. Br. at 48. In determining how long it would have taken a respondent to develop the misappropriated trade secrets, however, the Commission may consider the length of time it took the complainant to develop the secrets and the resources of a respondent. *Sausage Casings*, Inv. Nos. 337-TA-148/169, Comm'n Op. at 19–20. Those two issues are addressed below.

Mr. Xiong testified each of the asserted trade secrets was the result of around 1 year of research and development efforts. Tr. (Xiong) at 57:24–59:1 (research and development to bring an 8-inch product line to market took 12 months), 61:6–62:1 (selection of protective film took a year), and 66:14–67:6 (machine design improvements took a year to research and develop). Respondents contend that any limited exclusion order should be limited in time, but do not provide evidence or argument regarding the amount of time it would have taken them to independently develop the asserted trade secrets. Respondents Post-Hearing Br. at 37–38 and Respondents Post-Hearing Resp. Br. at 48.

As for the resources of Green Giant, the evidence demonstrates that Green Giant was not in a position to independently develop the asserted trade secrets any more quickly than Vego Garden. Instead, the evidence shows that Green Giant was only recently formed and appears to be a small company. In addition, because Green Giant apparently did not have sufficient internal resources, it was having difficulty developing and manufacturing its own raised metal garden products. As a result, Green Giant secured the assistance of Mr. Yu and was only then able to quickly get to market using Vego Garden's trade secret information. *See* CX-0037 at No. 141 (Mr. Yu was introduced to Green Giant because Green Giant "ha[s] some technical difficulties that we cannot overcome"), at No. 85 (Mr. Xie of Green Giant stating that "three months are not enough, not enough at all … To us Yu Xiong was that special helpful man. To tell you the truth, he did help us a lot, right"), and at No. 81 ("Yu Xiong did give us some constructive suggestions . . . In fact, we just entered this industry, up until now a lot of stuff are done in reference to his standards").

While Respondents contend that a limited exclusion order should not issue, they do not address or provide evidence regarding a specific time period of an exclusion order with respect to any individual trade secret or the trade secrets globally. Respondents Post-Hearing Br. at 37–38; and Respondents Post-Hearing Resp. Br. at 48. The Staff contends that a limited exclusion order of no more than 12 months is appropriate, based on the development time of the asserted trade secrets. Staff Post-Hearing Br. at 64.

With that backdrop, each of the asserted trade secrets is addressed separately.

a) The 8-Inch Product Development Trade Secret

As to the 8-inch product development trade secret, in view of the evidence, including the length of time for development by Vego Garden (12 months) and the resources of Green Giant (not greater than Vego Garden), I recommend a limited exclusion order of 12 months. In addition, the evidence supports that only Green Giant's 8-inch raised metal garden bed products are made using the misappropriated 8-inch product development trade secret.

Accordingly, to the extent the Commission finds a violation with respect to the 8-inch product development trade secret, I recommend a limited exclusion order directed to those entities involved in the sale for importation, importation, and sale after importation of Green Giant's 8-inch raised metal garden bed products and components thereof for a duration of 12 months.

In addition, because there is no evidence that the asserted trade secrets could not have been developed simultaneously, I recommend that, to the extent the Commission finds a violation with respect to either of the other asserted trade secrets, and those trade secrets are incorporated in Green Giant's 8-inch products, the time periods of such exclusion orders run concurrently.

b) The Protective Film Trade Secret

As to the protective film trade secret, in view of the evidence, including the length of time for development by Vego Garden (12 months) and the resources of Green Giant (not greater than Vego Garden), if the Commission concludes there is a violation with respect to Vego Garden's protective film trade secret, I recommend a limited exclusion order of 12 months. In addition, the evidence supports that all of Green Giant's raised metal garden bed products are made using the protective film trade secret. Tr. (Lu) at 366:1–8 (Green Giant uses the same supplier for all of its protective films); *id.* at 367:13–25 ("I went with the glueless option, which makes it easy to remove"). Accordingly, to the extent the Commission finds a violation with respect to the protective film trade secret, I recommend a limited exclusion order directed to those entities involved in the sale for importation, importation, and sale after importation of all of Green Giant's raised metal garden bed products and components thereof for a duration of 12 months.

In addition, because there is no evidence that the asserted trade secrets could not have been developed simultaneously, I recommend that, to the extent the Commission finds a violation with respect to either of the other asserted trade secrets, and those trade secrets are incorporated in Green Giant's products, the time periods of such exclusion orders run concurrently.

c) The Bending Machine Trade Secret

Mr. Xiong testified that he started working on raised metal garden bed products around the beginning of 2020, sold his first product in July 2020, and formally founded Vego Garden at the end of 2020. Tr. (Xiong) at 25:8–22. The subject matter of Vego Garden's bending machine trade secret became public with the publication of Chinese Patent Application CN 214719610U on

November 16, 2021. Complainant Post-Hearing Br. at 14; and JX-0021. The evidence thus supports that the time between when the earliest Vego Garden raised metal garden bed was made using the bending machine trade secret to the publication of that trade secret was at most around 16 months.

In view of the evidence, including the length of time for development by Vego Garden (12 months), the resources of Green Giant (not greater than Vego Garden), and the time period of secrecy (no more than 16 months), if the Commission concludes there is a violation with respect to Vego Garden's bending machine trade secret, I recommend a limited exclusion order of 12 months. In addition, the evidence supports that all of Green Giant's raised metal garden bed products are made using the bending machine trade secret. *See* JX-0001. As a result, to the extent the Commission finds a violation with respect to the bending machine trade secret, I recommend issuance of a limited exclusion order directed to those entities involved in the sale for importation, importation, and sale after importation of all of Green Giant's raised metal garden bed products and components thereof for a duration of 12 months. In addition, because there is no evidence that the asserted trade secrets could not have been developed simultaneously, I recommend that, to the extent the Commission finds a violation with respect to either of the other asserted trade secrets, and those trade secrets are incorporated in Green Giant's products, the time periods of such exclusion orders run concurrently.

2. Limited Exclusion Order Addressing False Advertising

As noted by the Staff, having determined that there was a violation of section 337 based on false advertising, the Commission has issued remedial orders that were not time-limited, instead prohibiting the respondent from importing falsely-advertised products. Staff Post-Hearing Br. at 64, *citing Woven Textile Fabrics*, Inv. No. 337-TA-976, General Exclusion Order at 1 ("the

Commission has determined to issue a general exclusion order prohibiting the importation of woven textile fabrics and products containing same that are falsely advertised through the misrepresentation of thread counts") (EDIS Doc. ID 605891). As addressed above, the Supreme Court recently clarified that 15 U.S.C. § 1125(a)(1) is directed to unauthorized use in domestic commerce of a protected trademark when, among other things, that use is likely to cause confusion. *Abitron*, Slip Op. at 14–15. Considering that guidance, I recommend that if the Commission determines that there is a violation of section 337 with respect to false advertising, any limited exclusion order prohibit the importation by Utopban of raised garden beds and components thereof falsely-advertised in the United States by use of any Vego Garden photograph.

Vego Garden and the Staff both recognize that a certification provision "may be appropriate to minimize the possibility that any non-covered products will be excluded from entry." Complainant Post-Hearing Br. at 46; and Staff Post-Hearing Br. at 62. Utopban contends that it has stopped using Vego Garden's photographs to advertise its products, Respondents Post-Hearing Br. at 27, 37, and there is no record evidence suggesting that is not the case. To minimize the possibility that non-covered products will be excluded from entry, and in view of the clarification of 15 U.S.C. § 1125(a)(1) provided by the Supreme Court in *Abitron*, requiring use of a false advertisement in domestic commerce for a § 1125(a)(1) claim, I recommend that any limited exclusion order include a provision allowing Utopban to certify that the imported raised metal garden beds and components thereof were not falsely advertised in the United States by use of any Vego Garden photograph.

B. Cease and Desist Orders

Section 337(f)(1) provides that in addition to, or in lieu of, the issuance of an exclusion order, the Commission may issue a cease and desist order as a remedy for violation of section 337.

19 U.S.C. § 1337(f)(1). A cease and desist order is generally issued when a respondent maintains commercially significant inventories in the United States or has significant domestic operations that could undercut the remedy provided by an exclusion order. *Certain Table Saws Incorporating Active Injury Mitigation Technology & Components Thereof*, Inv. No. 337-TA-965, Comm'n Op. at 4–6 (Feb. 1, 2017) (EDIS Doc. ID 602496). "A complainant seeking a cease and desist order must demonstrate, based on the record, that this remedy is necessary to address the violation found in the investigation so as to not undercut the relief provided by the exclusion order." *Id*. at 5.

Vego Garden appears to seek a cease and desist order only as to Utopban, which it contends maintains inventory of raised garden bed products in third-party warehouses in Los Angeles and New Jersey. Complainant Post-Hearing Br. at 47–48. The Staff agrees that a cease and desist order is warranted as to Utopban. Staff Post-Hearing Br. at 64–65.

Under the name Vegega, Utopban has at least one facility in the United States. Amended Complaint, ¶ 3.2 (identifying Vegega as having a location at 2646 River Ave., Suite #A, Rosemead, CA 91770). As to whether Utopban maintains significant inventory in the United States, Mr. Li testified that Utopban keeps several hundred units of raised garden bed products in inventory in each of two third-party warehouses in Los Angeles and New Jersey. Tr. (Li) at 326:19–327:24; *see also* CX-0501 (Li Dep.) at 24:4–26:5 (addressing inventory maintained in Los Angeles and New Jersey, with a larger volume of inventory in Los Angeles and stating that Utopban has moved to a model "where we order things ahead of time and keep them in stock, and then [] have the inventory shipped out from the warehouse as the orders come in"). In addition, in Exhibit A to its response to the amended complaint, Utopban represented that "[t]he quantity of Utopban Limited's accused products imported into the US in the year prior to filing this response on December 5, 2022, is 5350." Exhibit A to Utopban Response to Complaint, ¶ a. Given the volume of raised garden beds that Utopban has imported, I find that an inventory of several hundred products in each of Utopban's Los Angeles and New Jersey warehouses is significant.

Respondents contend that Utopban "only imports limited inventory of goods into the United States" and is "not engaged in significant business activities in the United States since there are much more competitors in the market that directly compete with Complainants." Respondents Post-Hearing Br. at 38. Respondents do not address that Utopban has at least one facility in the United States. Respondents also do not address the testimony of Mr. Li that Utopban maintains several hundred of Green Giant's raised garden bed products in each of two warehouses in the United States. Nor do Respondents dispute that Utopban's inventory in the United States has increased over time. *See* Respondents Post-Hearing Br. at 38–39; and Respondents Post-Hearing Resp. Br. at 48.

The evidence demonstrates that Utopban maintains a significant inventory of raised garden bed products at warehouses in Los Angeles and New Jersey and that it has increased or plans to increase the use of U.S. inventory for storage of its products. As a result, if the Commission finds a violation as to Utopban, I recommend issuance of a cease and desist order.

C. Bond During Presidential Review

When the Commission enters an exclusion order or a cease and desist order, a respondent may continue to import and sell its products during the 60-day Presidential review period under an amount determined by the Commission to be "sufficient to protect the complainant from any injury." 19 U.S.C. § 1337(j)(3); *see also* 19 C.F.R. § 210.50(a)(3); and *Automated Put Walls*, Inv. No. 337-TA-1293, Comm'n Op. at 46. Vego Garden bears the burden of establishing the need for a bond. *Automated Put Walls*, Inv. No. 337-TA-1293, Comm'n Op. at 47.

Respondents did not substantively address the appropriate bond in their pre-hearing brief. Respondents do not argue that they were not aware of the issue, nor could they. Respondents' pre-hearing brief contains a section titled "Remedy and Bond," but neither that section nor any other section of their brief substantively addresses the issue. Respondents Pre-Hearing Br. at iii and 34–36. Respondents have, therefore, waived this issue. *See* Order No. 14 (Ground Rules) at Ground Rule 11.2; *see also* Staff Post-Hearing Br. at 66–67, n.34. Nevertheless, Respondents contend in their post-hearing brief that Vego Garden "has not established that it will be harmed as a result of any products imported during the Presidential review period." Respondents Post-Hearing Br. at 39.

The evidence demonstrates that Respondents directly compete with and target and sell to the same customers as Vego Garden. Tr. (Xiong) at 42:10–14 (identifying Vegega as a competitor to Vego Garden); Tr. (Xiong) at 43:6–14 (identifying Green Giant customers as competitors in the United States); CX-0501 (Li Dep.) at 35:22–25 (identifying Vego Gardens as selling the same products as Utopban). The evidence also demonstrates that Vego Garden has experienced substantial injury to its domestic industry. *See* section IX.B. I therefore conclude that a bond is necessary to prevent injury to Vego Garden during the Presidential review period.

When reliable price information is in the record, the Commission often sets the bond by eliminating the differential between the domestic product and the imported product. *Automated Put Walls*, Inv. No. 337-TA-1293, Comm'n Op. at 46. The Commission may also use a reasonable royalty rate to set the bond amount where one can be determined from the record. *Id*. Where the record establishes that the calculation of a price differential is impractical or there is insufficient evidence in the record to determine a reasonable royalty, the Commission has imposed a 100 percent bond. *Id*.

Vego Garden asserts that a 100% bond is appropriate because a price differential comparison is not possible and there is no reasonable royalty rate. Complainant Pre-Hearing Br. at 33–34; Complainant Post-Hearing Br. at 48–49. The Staff agrees. Staff Post-Hearing Br. at 66.

Mr. Xiong, the founder of Vego Garden, testified that Vego Garden was forced to reduce the prices of its raised metal garden bed products because of Respondents' entry into the market but that those price reductions were not uniform because Respondents sold into various channels, including Amazon and a proprietary website. Tr. (Xiong) at 45:18–46:5. Mr. Xiong also testified that Vego Garden sells raised metal garden bed products in three different heights, and in each of those heights has five different configurations, with different prices. *Id.* at 198:6–199:11. Mr. Li of Utopban testified that he did not intend to price the Respondents' products higher than those of Vego Garden but did not provide any testimony or other evidence of any specific price differentials between Respondents' products and those of Vego Garden. CX-0501 (Li Dep.) at 31:9–32:2.

Respondents contend that Vego Garden "has not established any reliable basis for a bond rate of [sic], for it has presented no quantitative analysis of any price difference between the domestic industry products and the accused products, or a reasonable royalty rate." Respondents Post-Hearing Br. at 39. When that is the case, however, a bond of 100% is appropriate.

The evidence demonstrates that calculation of a price differential is not feasible. The evidence also does not demonstrate that there is any set royalty rate. *See* Staff Post-Hearing Br. at 66, n.33. In view of the record evidence, I recommend that the Commission set a 100% bond for any importation of Respondents' raised metal garden bed products and components thereof during the Presidential review period.

XII. INITIAL DETERMINATION ON VIOLATION

It is my initial determination that a violation of section 337 of the Tariff Act, as amended, has occurred by the importation into the United States, the sale for importation, or the sale within the United States after importation of raised metal garden beds and components thereof by Respondents Green Giant and Utopban. I hereby certify this Initial Determination and Recommended Determination to the Commission.

The Secretary shall serve the confidential version of this Initial Determination and Recommended Determination upon counsel who are signatories to the Protective Order (Order No. 1) issued in this investigation. A public version will be served on all parties of record later.

Pursuant to 19 C.F.R. § 210.42(h), this Initial Determination shall become the determination of the Commission unless a party files a petition for review under 19 C.F.R. § 210.43(a) or the Commission orders on its own motion a review of the Initial Determination or certain issues therein under 19 C.F.R. § 210.44.

XIII. ORDER

Within seven days of the date of this document, the parties shall jointly submit a single proposed public version with any proposed redactions indicated in red. If the parties submit excessive redactions, they may be required to provide declarations from individuals with personal knowledge, justifying each proposed redaction and specifically explaining why the information sought to be redacted meets the definition for confidential business information set forth in 19 C.F.R. § 201.6(a). The proposed redactions should be made electronically, in a single PDF file using the "Redact Tool" within Adobe Acrobat. The proposed redactions should be submitted as "marked" but not yet "applied." The proposed redactions should be submitted via email to JohnsonHines1334@usitc.gov and not filed on EDIS.

SO ORDERED.

Doris Johnson Hines
Administrative Law Judge

KeyCite Yellow Flag - Negative Treatment
Distinguished by Bepex International, LLC v. Micron BV, D.Minn., April 17, 2023

48 F.4th 18
United States Court of Appeals, First Circuit.

AMYNDAS PHARMACEUTICALS, S.A. and Amyndas Pharmaceuticals, LLC, Plaintiffs, Appellants,
v.
ZEALAND PHARMA A/S and Zealand Pharma U.S., Inc., Defendants, Appellees,
Alexion Pharmaceuticals, Inc., Defendant.

No. 21-1781
|
September 2, 2022

Synopsis
Background: Following unsuccessful joint-venture negotiations among plaintiff, a biotechnology company, and first competitor, a Delaware corporation, and competitor's Danish parent, plaintiff brought action for trade-secret misappropriation under the Defend Trade Secrets Act (DTSA) and Massachusetts law, and for unfair competition, breach of contract, and unjust enrichment against first competitor, its parent, and second competitor, along with a claim against first competitor and parent for breach of the covenant of good faith and fair dealing and a claim against second competitor for tortious interference with business relations, alleging that the competitors were wrongfully using trade secrets covered by the joint-venture contracts that plaintiff, first competitor, and its parent had executed. The United States District Court for the District of Massachusetts, Leo T. Sorokin, J., granted Danish parent's motion to dismiss based on contractual forum-selection clause, granted first competitor's motion to dismiss for failure to state a claim based on complaint's failure to distinguish between first competitor and parent, denied plaintiff's motion for leave to amend, and entered a partial final judgment. Plaintiff appealed.

Holdings: The Court of Appeals, Selya, Circuit Judge, held that:

[1] district court's entry of an appealable partial final judgment was not an abuse of discretion;

[2] forum-selection clause in contracts governing joint venture required plaintiff to bring claims against Danish parent of competitor in Denmark;

[3] enforcement of forum-selection clause was not sufficiently unreasonable to warrant disregarding clause;

[4] denial of plaintiff's motion for leave to amend based on delay was not warranted; and

[5] plaintiff's proposed amended complaint stated claim for trade-secret-misappropriation against competitor.

Affirmed in part, vacated in part, and remanded.

West Headnotes (41)

[1] **Federal Courts** In general; necessity

The finality principle for federal appeals typically requires, as a precondition for an appeal, a final disposition of all claims in an action that have been brought by or against all of the parties. 28 U.S.C.A. § 1291.

1 Case that cites this headnote

[2] **Federal Courts** Certification and Leave to Appeal

The rule of federal civil procedure allowing entry of an appealable partial final judgment is designed to balance the need for the timely adjudication of important issues that arise early in a case with the long-settled and prudential policy against the scattershot disposition of litigation. Fed. R. Civ. P. 54(b).

3 Cases that cite this headnote

[3] **Federal Courts**Certification and Leave to Appeal

The entry of an appealable partial final judgment must be reserved for the unusual case in which the costs and risks of multiplying the number of proceedings and of overcrowding the appellate docket are outbalanced by pressing needs of the litigants for an early and separate judgment as to some claims or parties. Fed. R. Civ. P. 54(b).

5 Cases that cite this headnote

[4] **Federal Courts**Proceedings for appeal

When reviewing a district court's decision to issue an appealable partial final judgment, an appellate court reviews de novo a district court's legal determination regarding finality, but the appellate court reviews for abuse of discretion the district court's determination that there is no just reason to delay entry of judgment. Fed. R. Civ. P. 54(b).

3 Cases that cite this headnote

[5] **Federal Courts**Certification and Leave to Appeal

The finality requirement for entry of an appealable partial final judgment is satisfied as long as the district-court action underlying the judgment disposed of all of the rights and liabilities of at least one party as to at least one claim. Fed. R. Civ. P. 54(b).

[6] **Federal Courts**Proceedings for appeal

In reviewing a district court's determination, in connection with the entry of an appealable partial final judgment, that there was no just reason for delay, an appellate court must scrutinize the district court's evaluation of such factors as the interrelationship of the claims so as to prevent piecemeal appeals in cases which should be reviewed only as single units; if the district court considers the appropriate factors and adequately explains its reasoning, its determination is given substantial deference. Fed. R. Civ. P. 54(b).

[7] **Federal Courts**Multiple claims

District court's determination that there was no just reason for delay, and that entry of an appealable partial final judgment dismissing biotechnology firm's trade-secret-misappropriation and related claims against Danish competitor and competitor's United States subsidiary was thus warranted, was not an abuse of discretion, even though firm's claims against third pharmaceutical company remained pending and firm could pursue dismissed claims in Denmark, where the issues raised on appeal of dismissal of claims against Danish competitor and its subsidiary were ripe for review and were distinct from the still-pending claims against third company, there was little risk of competing and overlapping judgments on the merits, and the consequences of forum selection were substantial. Fed. R. Civ. P. 54(b).

1 Case that cites this headnote

[8] **Federal Courts**Certification and Leave to Appeal

Even when concerns about piecemeal litigation are at a minimum because there is little risk of competing and overlapping judgments on merits issues, a party seeking entry of an appealable partial final judgment must establish a compelling reason for accelerated appellate review. Fed. R. Civ. P. 54(b).

[9] **Federal Courts**Pleading

An appellate court reviews de novo an order of dismissal for failure to state a claim.

[10] **Federal Courts**Agreement as to place of bringing suit; forum selection clauses

Where a federal court is asked to enforce a forum-selection clause, federal common law supplies the rules of decision.

[11] **Contracts**Application to Contracts in General
ContractsLanguage of Instrument

Under federal common law, a contract must be read in accordance with its express terms and the plain meaning thereof.

[12] **Contracts**Language of Instrument

Under federal common law, contractual terms are accorded their ordinary meaning unless the parties mutually intended and agreed to an alternative meaning.

[13] **Contracts**Construction as a whole

Under federal common law, when interpreting a contract, a court must avoid tunnel vision: instead of focusing myopically on individual words, it must consider contractual provisions within the context of the contract as a whole.

[14] **Contracts**Legal remedies and proceedings

Forum-selection clause in contracts governing joint-venture negotiations between biotechnology company and its Danish competitor that required all contract-related disputes to be brought in "the venue of the defendant" required company to bring action against competitor for breach of contract and trade-secret misappropriation related to joint venture, which did not materialize, in Denmark, even though company also brought claims against Danish competitor's United States subsidiary, where that subsidiary did not exist when contract was executed, and when contracts were executed, competitor's only residence was Denmark.

[15] **Contracts**Agreement as to place of bringing suit; forum selection clauses
ContractsPresumptions and burden of proof

Even if a forum-selection clause is mandatory and unambiguous, a court may decline to enforce it if the resisting party can show that doing so would be unreasonable, but absent such a showing, a forum-selection clause is presumptively enforceable.

2 Cases that cite this headnote

[16] **Contracts**Agreement as to place of bringing suit; forum selection clauses
Federal Courts Public and private interests; balancing interests

Public-interest factors under the doctrine of forum non conveniens may sometimes provide support for rejecting enforcement of an otherwise valid forum-selection clause, but those factors will rarely defeat such a clause.

1 Case that cites this headnote

[17] **Contracts** Agreement as to place of bringing suit; forum selection clauses

Enforcement of mandatory, unambiguous forum-selection clause in contracts governing joint-venture negotiations between biotechnology company and its Danish competitor that required all contract-related disputes to be brought in Denmark, as "the venue of the defendant," was not sufficiently unreasonable to warrant disregarding clause in company's action against competitor for breach of contract and trade-secret misappropriation related to joint venture, which did not materialize, even if Danish law's trade-secret protections and discovery provisions were more restrictive than those under American law, where differences between Danish and American law would have been foreseeable from the start, and company could not credibly claim it would be denied its day in court by litigating in Denmark.

[18] **Contracts** Agreement as to place of bringing suit; forum selection clauses

A showing that a litigant would be so inconvenienced by litigating in a designated forum that a forum-selection clause should be disregarded is a heavy lift.

2 Cases that cite this headnote

[19] **Contracts** Agreement as to place of bringing suit; forum selection clauses

Mere differences in procedures or limitations on remedies in a forum designated in a forum-selection clause, unless those limitations effectively deprive the complaining party of any remedy at all, will not render a contractually designated forum unreasonable for purposes of determining whether to enforce a forum-selection clause.

2 Cases that cite this headnote

[20] **Antitrust and Trade Regulation** Actions
Contracts Agreement as to place of bringing suit; forum selection clauses

The fact that the Defend Trade Secrets Act (DTSA) guarantees a federal forum for trade-secret theft and has extraterritorial reach under some circumstances does not prevent parties from contracting outside or around it by agreeing to a forum-selection clause designating a foreign forum for contract-related disputes. 18 U.S.C.A. §§ 1836, 1837.

2 Cases that cite this headnote

[21] **Federal Civil Procedure** Liberality in allowing amendment

The Federal Rules of Civil Procedure take a liberal stance toward the amendment of pleadings, consistent with the federal courts' longstanding policy favoring the resolution of disputes on the merits. Fed. R. Civ. P. 15(a)(2).

2 Cases that cite this headnote

[22] **Federal Civil Procedure** Complaint

In the absence of any apparent or declared reason—such as undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of allowance of the amendment, futility of amendment, etc.—leave to amend a complaint should, as the rules require, be freely given. Fed. R. Civ. P. 15(a)(2).

5 Cases that cite this headnote

[23] Federal Courts Pleading

A denial of leave to amend is reviewed for abuse of discretion.

[24] Federal Courts Discretion of Lower Court in General

A district court's discretion is necessarily broad—but it is not absolute.

[25] Federal Courts Abuse of discretion in general

An abuse of a district court's discretion occurs when a material factor deserving significant weight is ignored, when an improper factor is relied upon, or when all proper and no improper factors are assessed but the court makes a serious mistake in weighing them.

[26] Federal Civil Procedure Complaint

A motion for leave to file an amended complaint requires that a court examine the totality of the circumstances and exercise sound discretion in light of the pertinent balance of equitable considerations. Fed. R. Civ. P. 15(a)(2).

[27] Federal Civil Procedure Time for amendment in general

Although delay alone is not a sufficient basis for denying leave to amend, undue delay, meaning a period of delay that is both substantial and unjustified, assuredly is. Fed. R. Civ. P. 15(a)(2).

2 Cases that cite this headnote

[28] Federal Civil Procedure Time for amendment

When a party has allowed a considerable period of time to elapse before seeking to amend its complaint, it must show some valid reason for its neglect and delay. Fed. R. Civ. P. 15(a)(2).

[29] Federal Civil Procedure Time for amendment

Determining how long a delay in moving for leave to amend a complaint is too long depends on the facts and circumstances of each particular case and is not simply a matter of counting days; the inquiry considers the reasonableness of the time between the filing of the motion for leave and a variety of points at which a party would become aware of a need to amend, such as the filing of a motion to dismiss, a dismissal order, or the discovery of new information that substantially alters the substance or viability of the claims. Fed. R. Civ. P. 15(a)(2).

1 Case that cites this headnote

[30] Federal Civil Procedure Amendments

The reason offered for seeking leave to amend a pleading must be a valid one; generally, valid reasons include a motion to dismiss or a ruling from the court pointing out flaws in the original pleading or the discovery of new information. Fed. R. Civ. P. 15(a)(2).

2 Cases that cite this headnote

[31] **Federal Civil Procedure** Injustice or prejudice

Even if a party's reasons for seeking leave to amend a pleading are valid, a court must consider whether and to what extent the opposing party would be unfairly prejudiced as a result of a delayed amendment. Fed. R. Civ. P. 15(a)(2).

3 Cases that cite this headnote

[32] **Federal Civil Procedure** Complaint

One factor that may weigh in the balance in a particular case when a court decides whether to grant leave to amend a pleading is whether the proposed amendment is a first attempt; serial amendments may be given closer scrutiny in terms of timing because busy trial courts, in the responsible exercise of their case-management functions, may refuse to allow plaintiffs an endless number of trips to the well. Fed. R. Civ. P. 15(a)(2).

[33] **Federal Civil Procedure** Amendments

The existence of related litigation may be a factor in the decisional calculus of whether to grant leave to amend a pleading. Fed. R. Civ. P. 15(a)(2).

[34] **Federal Civil Procedure** Time for amendment

Biotechnology company did not engage in undue delay in seeking leave to amend its complaint in action against competitor and competitor's Danish parent for breach of contract and trade-secret misappropriation related to joint venture that did not materialize, and denial of leave to amend based on company's delay was thus unwarranted, where company first moved for leave to amend 28 days after district court's order dismissing its claims against competitor for failure to state a claim based on complaint's failure to distinguish between competitor and its parent, case was complex, and company's proposed amended complaint made changes that were directly responsive to the district court's stated reasons for dismissing the original complaint and incorporated some new information. Fed. R. Civ. P. 15(a)(2).

[35] **Federal Civil Procedure** Amendments by briefs or motion papers

Generally, a district court need not pay heed to a contingent request for leave to amend made only in opposition papers. Fed. R. Civ. P. 15(a)(2).

[36] **Federal Civil Procedure** Time for amendment in general
Federal Civil Procedure Pleading over

Amendments to a pleading may be permitted before a judgment, even after a dismissal for failure to state a claim. Fed. R. Civ. P. 15(a)(2).

[37] **Federal Civil Procedure** Complaint

A party is not required to seek leave to amend its complaint each time a new piece of favorable information surfaces unless that new information is essential to the viability of its case. Fed. R. Civ. P. 15(a)(2).

[38] **Federal Civil Procedure**Form and sufficiency of amendment; futility

A proposed amendment is futile if it is either frivolous or contains some fatal defect; normally, this means that the complaint, as amended, would fail to state a claim upon which relief could be granted. Fed. R. Civ. P. 15(a)(2).

4 Cases that cite this headnote

[39] **Federal Civil Procedure**Form and sufficiency of amendment; futility

Whether a proposed amendment is futile, warranting denial of leave to amend, is gauged by reference to the liberal criteria of the rule governing motions to dismiss for failure to state a claim. Fed. R. Civ. P. 12(b)(6), 15(a)(2).

2 Cases that cite this headnote

[40] **Federal Civil Procedure**Form and sufficiency of amendment; futility

If an amended complaint contains sufficient factual matter, accepted as true, to state a claim to relief that is plausible on its face, and contains no other fatal defects, a district court abuses its discretion by denying a motion to amend on futility grounds. Fed. R. Civ. P. 12(b)(6), 15(a)(2).

3 Cases that cite this headnote

[41] **Antitrust and Trade Regulation**Pleading

Allegations by biotechnology company that competitor wrongly acquired company's trade secrets through competitor's parent, which had obtained access to those secrets during negotiations for a joint venture that never materialized, that competitor was working with second competitor to commercialize products based on company's trade secrets, and that competitor was using the secrets to obtain FDA approval for its products were sufficient to state claims under the Defend Trade Secrets Act (DTSA) and Massachusetts law for trade-secret misappropriation. 18 U.S.C.A. § 1839(5)(A)-(B); Mass. Gen. Laws Ann. ch. 93, § 42.

***23** APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MASSACHUSETTS [Hon. Leo T. Sorokin, U.S. District Judge]

Attorneys and Law Firms

Robert E. Counihan, with whom David K. Tellekson, Jessica M. Kaempf, Deena J. Greenberg Feit, Todd R. Gregorian, Fenwick & West LLP, Russell Beck, and Beck Reed Riden LLP were on brief, for appellants.

Edwina Clarke, with whom Kevin P. Martin, Robert D. Carroll, Huiya Wu, Tiffany Mahmood, and Goodwin Procter LLP were on brief, for appellees.

Before Barron, Chief Judge, Selya and Kayatta, Circuit Judges.

Opinion

SELYA, Circuit Judge.

When biotech firms engage in the entrepreneurial equivalent of musical chairs, one firm sometimes gets left out in the cold. That is essentially what happened here —

and it led to the litigation described below.

The music began with serial decisions by plaintiffs Amyndas Pharmaceuticals, S.A., now known as Amyndas Pharmaceuticals Single Member P.C., and Amyndas Pharmaceuticals, LLC (collectively, Amyndas), appellants here, to consider separate joint ventures with defendants Zealand Pharma A/S (Zealand Pharma) and Alexion Pharmaceuticals, Inc. (Alexion), respectively. In the ensuing chorus of negotiations, Amyndas relied on confidential disclosure agreements (CDAs) to safeguard its trade secrets. After Amyndas shared that confidential information, though, neither of the joint ventures materialized.

Even so, the band played on. Zealand Pharma and its newly established affiliate, Zealand Pharma U.S., Inc. (Zealand US), announced a partnership with Alexion — a partnership that contemplated bringing to market a drug targeting the same part of the immune system on which Amyndas ***24** had been concentrating. Amyndas responded by suing for misappropriation of trade secrets and other confidential information.

The district court dismissed Amyndas's claims against Zealand Pharma on the ground that the CDA between the parties required Amyndas to litigate those claims in Denmark. See Amyndas Pharms., S.A. v. Alexion Pharm., Inc., No. 20-12254, 2021 WL 4551433, at *7 (D. Mass. June 8, 2021). It then dismissed Amyndas's claims against Zealand US for failure to state a claim because the complaint's allegations were predominately against the Zealand entities, collectively, and thus "[we]re insufficient to put [the Zealand entities] on notice as to 'who did what to whom.' " Id. at *2. Twenty-eight days later, Amyndas filed a motion for reconsideration or, in the alternative, for leave to amend, attaching a proposed amended complaint. The district court denied both reconsideration and leave to amend.

Amyndas appealed these rulings. Because Amyndas's claims against Alexion remained pending in the district court, the district court entered a partial final judgment under Federal Rule of Civil Procedure 54(b) to enable immediate appellate review. Following briefing and oral argument, we now uphold the entry of a partial final judgment under Rule 54(b). And having confirmed the existence of appellate jurisdiction, we affirm the dismissal of Amyndas's claims against Zealand Pharma, vacate the dismissal of Amyndas's claims against Zealand US, and remand to the district court for further proceedings consistent with this opinion.

I

We briefly rehearse the facts and travel of the case. In that account, we take as true all well-pleaded facts alleged in the proposed amended complaint, drawing all reasonable inferences in the pleader's favor. See Rodríguez-Reyes v. Molina-Rodríguez, 711 F.3d 49, 52-53 (1st Cir. 2013); Panther Partners Inc. v. Ikanos Commc'ns, Inc., 681 F.3d 114, 119 (2d Cir. 2012).

Amyndas consists of a Greek company and its American affiliate. It is a biotechnology firm that researches and develops therapeutics targeting a part of the immune system known as the complement system. When the complement system malfunctions, it can cause the immune system to attack healthy tissue, either causing or exacerbating a wide variety of conditions. One area of Amyndas's research deals with "complement inhibitors."

Amyndas's research has yielded compstatin — a peptide that selectively inhibits the C3 protein (which plays a role in activating the complement system). What is more, Amyndas also has developed a related peptide (AMY-101) targeting that protein for clinical use. Amyndas is the exclusive licensee of patents related to this work and has endeavored to develop therapies based on AMY-101 that target the C3 protein. It owns trade secrets and confidential information related to this work.

In March of 2015, Zealand Pharma, a Danish biotechnology firm, contacted Amyndas about a potential partnership for the development of complement-related therapeutics. Discussions ensued. The next month, the two firms entered into a CDA regarding information-sharing "for the purposes of evaluating a possible business/ services relationship between the parties and their respective Affiliates." Shortly thereafter, Amyndas started giving Zealand Pharma access to confidential information (including confidential information about AMY-101). In August of 2016, the firms signed a second CDA — with added protections — for "the evaluation or formation ***25** of a possible business and/or services and/or collaborative relationship."

Both CDAs contained elaborate confidentiality provisions. The confidentiality provision of the second CDA is emblematic. It stated that the recipient of confidential information:

> shall (a) make no use of any of the Confidential Information disclosed by Discloser other than for the Purpose [of the evaluation or formation of a possible business and/or services and/or collaborative relationship between the parties and their respective

Affiliates], (b) not disclose such Confidential Information to third parties, and (c) take all reasonable precautions to prevent disclosure of such Confidential Information to third parties.

The confidentiality provision further stated that the recipient of confidential information:

> may only provide the Confidential Information of Discloser to its Representatives and its Affiliates who (a) need it for the Purpose, (b) are informed of the confidential nature of the Confidential Information, and (c) are bound by obligations of confidentiality and non-use no less restrictive than those contained herein.

The second CDA also contained an explicit guarantee that Amyndas would "own all the Developed Technology incorporating, or involving the use of, the Amyndas Base Technology."

Both CDAs included an identical "Governing Law" provision. This provision consisted of a choice-of-law clause stipulating that the CDAs would "be interpreted and governed by the laws of the country (applicable state) in which the defendant resides" and a forum-selection clause stipulating that "any dispute arising out of th[e CDA] shall be settled in the first instance by the venue of the defendant."

Following the execution of the second CDA, Amyndas shared more proprietary information with Zealand Pharma. Meanwhile, Zealand Pharma began its own research program in late 2016, also focused on complement therapeutics. It did not inform Amyndas of this initiative. Although negotiations continued, the firms ultimately decided not to collaborate. On April 26, 2017, Amyndas terminated its information-sharing relationship with Zealand Pharma.

We fast-forward to August of 2018, at which time Zealand Pharma formed Zealand US, a Delaware corporation having its principal place of business in Boston, Massachusetts. Without Amyndas's knowledge or consent, Zealand Pharma filed two European patent applications in 2018. Zealand Pharma then filed an international patent application in February of 2019, claiming priority in the two earlier patent applications and designating the United States as one jurisdiction in which patent protection would be sought.

On September 6, 2019, the international patent application was published, thus making its contents publicly available for the first time. The application purported to describe "compstatin analogues that are capable of binding to C3 protein and inhibiting complement activation." The C3 protein — which is the target of AMY-101 — has been the focus of Amyndas's research for many years. Perhaps more importantly, it was one subject of Amyndas's information-sharing with Zealand Pharma. Amyndas alleges that it shared confidential information with Zealand Pharma under the CDAs — information about various features, profiles, and characteristics of AMY-101 as well as how it could be used to make next-generation compounds.

At this juncture, it is useful to describe Alexion's role in this saga of alleged corporate ***26** intrigue. In 2007, Alexion — an established player in the complement therapeutics field — brought to market Soliris, a complement inhibitor that targets the C5 protein (a protein in the complement system). Soliris has been approved by the Food and Drug Administration (FDA) for four indications and — until recently — Soliris was the only FDA-approved and clinically available complement-specific therapeutic on the market. Alexion's patent on Soliris expires soon, and Alexion is facing commercial pressure to bring new complement-based drugs to market.

In January of 2018, representatives of Alexion and Amyndas met in San Francisco. Following that meeting, Alexion expressed interest in forming a partnership with Amyndas. The two companies signed a CDA limiting the use of exchanged confidential information to a singular purpose, namely, the "exploration of one or more potential business arrangements and/or potential arrangements of research, development, and commercialization of drug candidates relating to Amyndas' complement inhibitors." Alexion requested and received certain confidential information about Amyndas's complement therapeutic research, including details about Amyndas's intellectual property, planned clinical trials, platform, and collaboration network.

Although Alexion and Amyndas continued to talk for some time, their partnership negotiations ran aground. But through at least December of 2018, Alexion continued to receive confidential research updates from Amyndas. Unbeknownst to Amyndas, Alexion and Zealand Pharma had been discussing a collaboration during the same time frame. On March 20, 2019, those two firms issued a joint press release announcing a joint venture to develop complement therapeutics. More recently, they have announced that they anticipate entering Phase I clinical trials with a complement inhibitor targeting the C3 protein in the complement system.

Amyndas came to suspect that Alexion and Zealand Pharma had misappropriated confidential information which Amyndas had shared pursuant to the CDAs. The announced collaboration between Alexion and Zealand

Pharma for drugs targeting the C3 protein heightened these suspicions. Deeming its rights infringed, Amyndas sued Zealand Pharma, Zealand US, and Alexion in the United States District Court for the District of Massachusetts. Its complaint alleged that the Zealand defendants breached the CDAs, misappropriated trade secrets and other confidential information, and conspired with Alexion to use those misappropriated materials in producing competing complement therapeutic products. Specifically, the complaint alleged claims against the Zealand defendants for trade secret misappropriation, unfair competition, breach of contract, breach of the implied covenant of good faith and fair dealing, and unjust enrichment. So, too, the complaint alleged claims against Alexion for trade secret misappropriation, tortious interference with contractual relations, unfair competition, breach of contract, and unjust enrichment. The complaint then tied all the defendants together by asserting conspiracy claims.

Alexion answered the complaint, but the Zealand defendants moved to dismiss. On June 8, 2021, the district court dismissed Amyndas's claims against both Zealand defendants. See Amyndas, 2021 WL 4551433, at *7. As to Zealand Pharma, the court ruled that the forum-selection clause in the CDAs required that all claims against that defendant be brought in Denmark. See id. at *4-6. Looking to the plain meaning of the phrase "shall be settled in the first instance by the venue of the defendant," the court concluded that the "only plausible ***27** reading" of the forum-selection clause was that "adjudication of claims against a party defendant that arise out of the CDA must occur in the location of the party defendant." Id. at *4. As to Zealand US (which had not itself executed a CDA with Amyndas), the court ruled that the complaint failed to state a claim upon which relief could be granted. See id. at *3. The court noted that the complaint largely referred to "Zealand" as a single entity and did not make clear whether and how Zealand US was involved. See id. at *2-3. And because Zealand US was not formed until August of 2018, the "claims stated against 'Zealand' as a combined entity [we]re not sufficient to put Defendants on notice as to which claims pertain to Zealand [US]." Id. at *3.

Twenty-eight days later, Amyndas moved for reconsideration or, in the alternative, leave to amend the complaint. In its proposed amended complaint, Amyndas carefully distinguished between the two Zealand entities and pleaded its claims against them as discrete counts. Furthermore, the proposed amended complaint alleged additional facts supporting the claim that Zealand US was involved in the continuing exploitation of Amyndas's trade secrets, including allegations that Zealand US bears ongoing responsibility for the Alexion partnership and is participating in efforts to obtain regulatory approval for therapeutics derived from Amyndas's trade secrets. The proposed amended complaint also alleged that Zealand US is a corporate alter ego of Zealand Pharma and that the two are operated as a single business.

On August 27, 2021, the district court denied Amyndas's motion. In a minute order, the court summarily refused reconsideration and denied Amyndas's request to file an amended complaint. The court indicated that the proposed amended complaint would be futile — but undertook no analysis of any specific allegations against Zealand US. Instead, it tersely stated that the "proposed additional factual allegations" did not "plausibly allege a basis to conclude either that the Court should disregard the Zealand defendants' separate legal identities, or that Amyndas has stated claims directly against Zealand US."

Amyndas appealed. In conjunction with its notice of appeal, Amyndas moved for entry of a partial final judgment. See Fed. R. Civ. P. 54(b). Zealand Pharma and Zealand US opposed the Rule 54(b) motion. The district court overruled the Zealand defendants' objections and entered a partial final judgment, thus breathing life into the notice of appeal. See Fed. R. App. P. 4(a)(2). Briefing followed in due course, and we heard oral argument on June 8, 2022.

II

[1]Mindful that a federal court must always ensure that its rulings rest on a solid jurisdictional plinth, see Charlesbank Equity Fund II v. Blinds To Go, Inc., 370 F.3d 151, 155-56 (1st Cir. 2004) ("When a colorable question exists, an appellate court has an unflagging obligation to inquire sua sponte into its own jurisdiction."), we start by considering the basis for our jurisdiction over this interlocutory appeal: the district court's entry of partial final judgment under Rule 54(b). A federal appellate court's jurisdiction over an appeal is ordinarily limited to "final decisions" of the district court. 28 U.S.C. § 1291. This finality principle typically requires a final disposition of all claims in an action that have been brought by or against all of the parties. See Curtiss-Wright Corp. v. Gen. Elec. Co., 446 U.S. 1, 8, 100 S.Ct. 1460, 64 L.Ed.2d 1 (1980); Quinn v. City of Boston, 325 F.3d 18, 26 (1st Cir. 2003); see also ***28** Sears, Roebuck & Co. v. Mackey, 351 U.S. 427, 431-38, 76 S.Ct. 895, 100 L.Ed. 1297 (1956). But Federal Rule of Civil Procedure 54(b) carves out an exception: it permits a district court to issue a partial final judgment that is

immediately appealable as to particular claims or parties when those claims or parties can be sufficiently separated from other claims or parties in the case.

Withal, the district court's authority in this respect is narrowly circumscribed. Only if the court supportably determines both that its decision regarding a claim or party is sufficiently final and that "there is no just reason for delay[ing]" an immediate appeal may it enter a partial final judgment under Rule 54(b). See Fed. R. Civ. P. 54(b); see also Curtiss-Wright Corp., 446 U.S. at 7-8, 100 S.Ct. 1460.

[2] [3]There is good reason why Rule 54(b) is narrowly circumscribed. The rule is designed to balance the need for the timely adjudication of important issues that arise early in a case with the "long-settled and prudential policy against the scattershot disposition of litigation." Spiegel v. Trs. of Tufts Coll., 843 F.2d 38, 42 (1st Cir. 1988). The entry of "[j]udgments under Rule 54(b) must be reserved for the unusual case in which the costs and risks of multiplying the number of proceedings and of overcrowding the appellate docket are outbalanced by pressing needs of the litigants for an early and separate judgment as to some claims or parties." Id. (quoting Morrison-Knudsen Co. v. Archer, 655 F.2d 962, 965 (9th Cir. 1981) (Kennedy, J.)).

The court below determined that this case fit within the confines of Rule 54(b). It entered a partial final judgment dismissing Amyndas's claims against Zealand Pharma and dismissing Amyndas's claims against Zealand US. At the same time, it retained jurisdiction over Amyndas's claims against Alexion but stayed further proceedings pending the disposition of Amyndas's anticipated appeal.

[4]The Zealand defendants contend that the court erred in entering the partial final judgment. We review the district court's legal determination regarding finality de novo. See González Figueroa v. J.C. Penney P.R., Inc., 568 F.3d 313, 317 (1st Cir. 2009). But we review the district court's determination that there is no just reason to delay the entry of judgment on the dismissal of the claims against the Zealand defendants for abuse of discretion. See id.

[5]The finality requirement is satisfied as long as the "trial court action underlying the judgment disposed of all the rights and liabilities of at least one party as to at least one claim." Credit Francais Int'l, S.A. v. Bio-Vita, Ltd., 78 F.3d 698, 706 (1st Cir. 1996); see Curtiss-Wright, 446 U.S. at 7, 100 S.Ct. 1460. Here, it is undisputed that the dismissal of Amyndas's claims against the Zealand defendants satisfies this standard. Moreover, that order is unarguably final. See Credit Francais, 78 F.3d at 706. The burden of our inquiry thus falls on whether there is any "just reason for delay." Fed. R. Civ. P. 54(b).

[6]In mounting this inquiry, we must "scrutinize the district court's evaluation of such factors as the interrelationship of the claims so as to prevent piecemeal appeals in cases which should be reviewed only as single units." Curtiss-Wright, 446 U.S. at 10, 100 S.Ct. 1460. For this purpose, the district court acts as a "dispatcher," determining which final decisions should await appeal in the ordinary course and which should be permitted to go forward immediately. See id. at 8, 100 S.Ct. 1460. If the district court considers the appropriate factors and adequately explains its reasoning, its determination is given "substantial deference." See Spiegel, 843 F.2d at 44 ***29** (quoting Pahlavi v. Palandjian, 744 F.2d 902, 904 n.5 (1st Cir. 1984)). After all, the district court has a more intimate familiarity with the case, the parties, and the interrelationships among the claims.

[7]The Zealand defendants submit that the district court undervalued the cost of piecemeal litigation and did not take proper account of Amyndas's ability to pursue its claims in Denmark. Such considerations, however, are outweighed by the desirability of a single trial in a single forum — and we think that it was well within the ambit of the district court's discretion to facilitate an interlocutory appeal designed to test these waters.

Here, moreover, the issues on appeal are ripe for review and distinct from the merits of the claims remaining against Alexion. An immediate resolution of those issues will determine whether a joint trial is feasible.

[8]Of course, even when concerns about piecemeal litigation are at a minimum because there is little risk of competing and overlapping judgments on merits issues — as is the case here — a party seeking entry of partial final judgment must establish a compelling reason for accelerated appellate review. See id. at 45-46. For instance, the party may show a "pressing, exceptional need for immediate appellate intervention, or grave injustice of the sort remediable only by allowing an appeal to be taken forthwith, or dire hardship of a unique kind." Id. The district court concluded that Amyndas had satisfied this requirement, and we think that this determination was comfortably within the court's discretion. Although Amyndas can pursue litigation against the Zealand defendants (or at least against Zealand Pharma) in Denmark, it would be shortsighted to underestimate the added expense, inconvenience, and other disadvantages of following that path. If the forum-selection clause does not require resort to that

venue, the parties ought to know that fact sooner rather than later. Where, as here, the appropriate forum is in legitimate dispute and the consequences of forum selection are substantial, that circumstance weighs heavily in favor of accelerated review. Cf. Fed. Home Loan Bank of Bos. v. Moody's Corp., 821 F.3d 102, 107 n.3 (1st Cir. 2016) (approving partial final judgment aimed at allowing case to proceed in "appropriate venue"). And the nature of the rights at issue here — intellectual property rights that may erode in significance over time — also factors in favor of speedier review. Given this medley of factors, we find no abuse of discretion in the district court's determination that there was no just reason for delay in entering a partial final judgment. Because the Rule 54(b) judgment covers all of the claims brought against the Zealand defendants, because the judgment as to those claims is final, and because the district court supportably determined that there was no just reason to delay the entry of that judgment, we have jurisdiction to hear and determine this appeal.

III

We divide our analysis of the appealed rulings into two movements. First, we address the district court's dismissal of Amyndas's claims against Zealand Pharma by reason of the forum-selection clause. Second, we address the district court's denial of Amyndas's motion for leave to file an amended complaint against Zealand US. We then recapitulate our conclusions.

A

We begin with the district court's dismissal of Amyndas's claims against Zealand Pharma. That dismissal was based ***30** upon the identical forum-selection clauses contained in the two CDAs.

As an initial matter, we note that Zealand Pharma properly raised the forum-selection issue. The Supreme Court has indicated that "the appropriate way to enforce a forum-selection clause pointing to a state or foreign forum is through the doctrine of forum non conveniens." Atl. Marine Constr. Co. v. U.S. Dist. Ct. for W. Dist. of Tex., 571 U.S. 49, 60, 134 S.Ct. 568, 187 L.Ed.2d 487 (2013) (emphasis in original). Even so, the Atlantic Marine Court left the door open for considering forum-selection arguments under the aegis of Rule 12(b)(6). See id. at 61 & n.4, 134 S.Ct. 568. This court has typically analyzed forum-selection clauses under that framework. See, e.g., Rivera v. Kress Stores of P.R., Inc., 30 F.4th 98, 102 (1st Cir. 2022); Claudio-De León v. Sistema Universitario Ana G. Méndez, 775 F.3d 41, 46 & n.3 (1st Cir. 2014). The arguments posed by Zealand Pharma fit within these contours.

Against this backdrop, we train the lens of our inquiry upon the forum-selection clause. We first discuss the interpretation of that clause and then discuss its enforceability.

1

[9]We review de novo an order of dismissal under Rule 12(b)(6). See Silva v. Encycl. Britannica Inc., 239 F.3d 385, 387 (1st Cir. 2001). As we have said, both CDAs between Amyndas and Zealand Pharma contained the same forum-selection provision[1]:

> Governing Law. For any claim brought against a party under this Agreement, the Agreement will be interpreted and governed by the laws of the country (applicable state) in which the defendant resides. If an amicable settlement cannot be reached, any dispute arising out of this Agreement shall be settled in the first instance by the venue of the defendant.

(second emphasis supplied). The district court concluded that "the only plausible reading of the forum selection clause ... is that adjudication of claims against a party defendant that arise out of the CDA must occur in the location of the party defendant." Amyndas, 2021 WL 4551433, at *4. It further concluded that the "location" of Zealand Pharma was Denmark. See id. at *4-5. Inasmuch as all of Amyndas's claims against Zealand Pharma arose out of the CDAs, those claims had to "be litigated in Denmark." Id. at *4.

Before we reach the dispositive issue, two preliminary matters demand our attention. First, we think it important to remark that neither party quarrels with the district court's conclusion that Amyndas's claims against Zealand Pharma "aris[e] out of" the CDAs. Second, we also think it important to remark that the parties agree that the forum-selection clause in this case is mandatory. In other words, the clause specifies a forum in which claims must be brought (unless enforcement of the clause is either waived or impermissible). See Rivera, 30 F.4th at 103; Huffington v. T.C. Group, LLC, 637 F.3d 18, 21 (1st Cir. 2011).

[10]Where, as here, a federal court is asked to enforce a

forum-selection clause, federal common law supplies the rules of decision. See Rivera, 30 F.4th at 102-03; Lambert v. Kysar, 983 F.2d 1110, 1116 (1st Cir. 1993). Notwithstanding the choice-of-law clause contained in each CDA, the ***31** parties have agreed that federal common law and general contract-law principles control here.

[11] [12] [13]Under federal common law, a contract must be "read in accordance with its express terms and the plain meaning thereof." C. Sanchez & Son, Inc. v. United States, 6 F.3d 1539, 1543 (Fed. Cir. 1993). The contractual terms are accorded "their ordinary meaning unless the parties mutually intended and agreed to an alternative meaning." Harris v. Dep't of Veterans Affairs, 142 F.3d 1463, 1467 (Fed. Cir. 1998); see Forcier v. Metro. Life Ins. Co., 469 F.3d 178, 185 (1st Cir. 2006) (noting that federal common law "requires that we accord [a contract's] unambiguous language its plain and ordinary meaning"); Smart v. Gillette Co. Long-Term Disab. Plan, 70 F.3d 173, 178 (1st Cir. 1995) (explaining that federal common law demands the application of "common-sense canons of contract interpretation"). Even so, an inquiring court must avoid tunnel vision: instead of focusing myopically on individual words, it must consider contractual provisions within the context of the contract as a whole. See Rivera v. Centro Médico de Turabo, Inc., 575 F.3d 10, 17 (1st Cir. 2009); Smart, 70 F.3d at 179.

[14]Given the parties' consensus on these points, the interpretive question before us boils down to the meaning of the term "the venue of the defendant." Amyndas argues that "the venue of the defendant" denotes multiple locations as applied to Zealand Pharma — including locations where Zealand Pharma and its affiliates have a presence (including both Denmark and Massachusetts). We do not believe that "the venue of the defendant" is susceptible to so elastic an interpretation.

"Venue" is a term that — in legal matters — has both a general meaning and a more specialized meaning. Amyndas contends that the meaning of "venue" in the forum-selection clause should closely track its specialized legal meaning. In particular, it draws sustenance from the federal venue statute, see 28 U.S.C. § 1391, which defines venue to include not only the place or places where a defendant resides (which — for corporations — can include multiple locations) but also the place or places where events or omissions giving rise to the claim occurred, see id. § 1391(b)-(d). Such a construction would inevitably lead to the conclusion that Zealand Pharma potentially could be sued in virtually any jurisdiction. But such a conclusion would undercut the certainty that forum-selection clauses are meant to confer and would render the clause largely superfluous. See M/S Bremen v. Zapata Off-Shore Co., 407 U.S. 1, 13 n.15, 17, 92 S.Ct. 1907, 32 L.Ed.2d 513 (1972). So viewed, Amyndas's principal argument lacks force.

Nor does Amyndas's effort to tether Zealand Pharma to Zealand US gain Amyndas any traction with respect to its principal argument. After all, the two are separate corporations, and Zealand US did not exist when the CDAs were executed. Given that factual backdrop, we cannot credit Amyndas's argument that the parties, as "sophisticated" entities, used the term "the venue of the defendant" to signify virtually any location.

Amyndas tries a variation on this theme — a variation that also relies heavily on treating Zealand Pharma as substantially equivalent to Zealand US. It suggests that even if "the venue of the defendant" is accorded the narrower but still widely shared meaning of "locale" or "location," see, e.g., Merriam-Webster Dictionary, https://www.merriam-webster.com/dictionary/venue (defining "venue" as "locale"); Oxford English Dictionary, https://www.oed.com/view/Entry/222318 (defining "venue" with various sense of place, scene, and location), Zealand Pharma operates in ***32** multiple locales. Amyndas points to facts suggesting that Zealand Pharma operates hand-in-glove with Zealand US and argues that the locations of Zealand US's offices in Massachusetts and New York qualify as residences of Zealand Pharma.

But this argument ignores the distinction between Zealand Pharma and Zealand US. The forum-selection clause points unerringly to Zealand Pharma, not to Zealand US. Only the latter has a residence in the United States. This interpretation has the unparalleled benefit of being consistent with other aspects of the CDAs. See PowerShare, Inc. v. Syntel, Inc., 597 F.3d 10, 17 (1st Cir. 2010) (explaining that "one of the cardinal rules of contract interpretation" is "that a document should be read to ... render [all its provisions] consistent with each other" (quoting Mastrobuono v. Shearson Lehman Hutton, Inc., 514 U.S. 52, 63, 115 S.Ct. 1212, 131 L.Ed.2d 76 (1995))). Take the choice-of-law clause, for instance. That clause sets the governing law as that of "the country (applicable state) in which the defendant resides." At the time the CDAs were signed, Zealand Pharma's residence could only have been Denmark. Thus, as applied to Zealand Pharma, "the country ... in which [it] resides" could only have been understood to mean that singular location.

For this reason, we reject Amyndas's argument that the parties' use of the phrase "the country ... in which the defendant resides" shows that they knew how to select the defendant's place of residence when they intended to do so. See, e.g., Vendura v. Boxer, 845 F.3d 477, 485 (1st Cir. 2017). Given Zealand Pharma's singular location at the times the CDAs were signed, we think it is more consistent with those agreements as a whole to interpret "the venue of the defendant" similarly to "country ... in which the defendant resides." Simply stated, both "venue" and "residence" point to Denmark because that is Zealand Pharma's lone location.

We are not convinced of any contrary conclusion by Amyndas's argument regarding the parties' use of the definite article "the" before "venue" in the forum-selection clause. "[T]he definite article 'the' 'particularizes the subject spoken of,' suggesting ... refer[ence] to a single object." Hernandez v. Williams, Zinman & Parham PC, 829 F.3d 1068, 1074 (9th Cir. 2016) (quoting Black's Law Dictionary 1647 (4th ed. 1968)). Just as "the house" means that there is one house, so too "the venue," in this context, could mean that there is one venue.

To be sure, the force of "the" and the singular form depend on context and use. Amyndas points to the Dictionary Act, which provides that — so far as the construction of federal statutes is concerned — "words importing the singular include and apply to several persons, parties, or things." 1 U.S.C. § 1. Relatedly, Amyndas notes that the federal venue statute, 28 U.S.C. § 1391, uses "the venue" even though "no single such location exists."

Assuming without deciding that Amyndas is correct that "the" could refer to multiple locations, that does not change the outcome of this case. That is because — as we already have stated — Zealand Pharma has had only one residence at all relevant times: Denmark. Consequently, it would be struthious to suggest that "the venue" of Zealand Pharma carried a plural meaning.

And in addition, our reading of the agreement accords with the core purpose of a mandatory forum-selection clause: to restrict the fora in which covered controversies may be resolved. That purpose was adequately evinced in this case, as the forum-selection clause was a "reasonable effort to bring vital certainty to this international ***33** transaction." M/S Bremen, 407 U.S. at 17, 92 S.Ct. 1907. The interest in creating certainty would be poorly served by construing "the venue of the defendant," as used in the CDAs, as referring to virtually anywhere. A mandatory forum-selection clause that permits suit to be brought virtually anywhere is not a mandatory forum-selection clause at all.

To say more on this point would be supererogatory. Considering the text, context, and function of the forum-selection clause, we agree with the district court that the forum-selection clause must be interpreted to require that the claims against Zealand Pharma be brought first in a Danish court.

2

[15]Amyndas argues that even if the forum-selection clause requires — by textual interpretation — litigating its claims against Zealand Pharma in Denmark, it would be unreasonable to enforce that clause as written. The premise that underpins Amyndas's argument is sound: even if a forum-selection clause is mandatory and unambiguous — as this one is — a court may decline to enforce it if the resisting party can show that doing so would be "unreasonable." See M/S Bremen, 407 U.S. at 10, 92 S.Ct. 1907; Claudio-De León, 775 F.3d at 48-49. Absent such a showing, a forum-selection clause is presumptively enforceable. See Claudio-De León, 775 F.3d at 48.

[16]We have articulated four grounds for deeming a forum-selection clause to be unenforceable: the clause derives from "fraud or overreaching"; enforcing the clause "would be unreasonable and unjust"; "proceedings in the contractual forum will be so gravely difficult and inconvenient that the party challenging the clause will for all practical purposes be deprived of his day in court"; and enforcing the clause would "contravene a strong public policy of the forum in which suit is brought, whether declared by statute or by judicial decision." Id. at 48-49 (internal quotation marks omitted); see M/S Bremen, 407 U.S. at 15, 92 S.Ct. 1907. In addition, public interest factors under the doctrine of forum non conveniens may sometimes provide support for rejecting enforcement of an otherwise valid forum-selection clause, but "those factors will rarely defeat" such a clause. Atl. Marine, 571 U.S. at 64, 134 S.Ct. 568; see Imamura v. Gen. Elec. Co., 957 F.3d 98, 107 (1st Cir. 2020) (noting that public interest factors include "the administrative difficulties flowing from court congestion; the 'local interest in having localized controversies decided at home'; the interest in having the trial of a diversity case in a forum that is at home with the law that must govern the action; the avoidance of unnecessary problems in conflict of laws, or in the application of foreign law; and the unfairness of burdening citizens in an unrelated forum with jury duty" (quoting Piper Aircraft Co. v. Reyno, 454 U.S. 235, 241 n.6, 102 S.Ct. 252, 70 L.Ed.2d 419 (1981))).

[17]Amyndas does not argue that the forum-selection clause is somehow tainted by fraud or overreaching. Instead, Amyndas strives to persuade us that forcing it to litigate in Denmark would be unreasonable and would effectively deprive it of its day in court. Specifically, it says that Denmark has more restrictive trade secret protections and imposes limitations on discovery not imposed by American courts, such as restrictions on the availability of internal corporate documents.

[18]We are not persuaded. A showing that a litigant would be so inconvenienced by litigating in a designated forum that a forum-selection clause should be disregarded is a heavy lift. See ***34** In re Mercurio, 402 F.3d 62, 66 (1st Cir. 2005); cf. Piper Aircraft, 454 U.S. at 246-55, 102 S.Ct. 252 (holding that potential change in law cannot, by itself, fend off dismissal under forum non conveniens absent showing that new law is "clearly inadequate or unsatisfactory"). Amyndas has not come close to making that heavy lift in this instance.

When the CDAs were first negotiated and signed, Zealand Pharma was based in Denmark and Zealand US did not exist. It would have been obvious to Amyndas at that time that if it wound up suing Zealand Pharma, it would be obliged to do so in Denmark, using whatever trade secret protections and discovery procedures were available under Danish law. Put bluntly, the content and contours of Danish trade secret law and the potential limitations on discovery were clearly foreseeable to Amyndas from the start. See Atl. Marine, 571 U.S. at 64, 134 S.Ct. 568; M/S Bremen, 407 U.S. at 17-18, 92 S.Ct. 1907. Had Amyndas — a sophisticated party acting with the advice of learned counsel — been wary of litigating under those rules, it could have negotiated for a different forum or choice of law. That Amyndas may now be suffering buyer's remorse about the forum to which it agreed is not a sufficient reason for denying enforcement of a valid forum-selection clause. See Dayhoff Inc. v. H.J. Heinz Co., 86 F.3d 1287, 1298 (3d Cir. 1996).

[19]Nor can Amyndas credibly claim that it is being denied its day in court. Foreign courts frequently have more limited discovery or stricter evidentiary regimes than federal courts, but that is rarely a basis for concluding that a party would be denied its day in court. See, e.g., Robinson v. TCI/US W. Commc'ns Inc., 117 F.3d 900, 909 (5th Cir. 1997) (holding that more limited discovery available under English law does not bar application of forum non conveniens dismissal); see also Gilmer v. Interstate/Johnson Lane Corp., 500 U.S. 20, 31, 111 S.Ct. 1647, 114 L.Ed.2d 26 (1991) (observing that the fact that discovery "procedures [in arbitration] might not be as extensive as in the federal courts" does not render agreement to arbitrate invalid). Mere differences in procedures or limitations on remedies, unless they effectively deprive the complaining party of any remedy at all, will not render a designated forum unreasonable. See Iragorri v. Int'l Elevator, Inc., 203 F.3d 8, 14 (1st Cir. 2000) (concluding that remedy limitations in Colombia did not render forum inadequate); see also Piper Aircraft, 454 U.S. at 255, 102 S.Ct. 252 (affirming forum non conveniens dismissal and holding that remedies available in Scottish courts were not "so clearly inadequate or unsatisfactory" that they were "no remedy at all"). So it is here: although litigating in Denmark may be inconvenient for Amyndas and may increase the cost of litigation, the record does not support its claim that it will be denied its day in court there.[2]

[20]Amyndas next contends that public policy requires that litigation proceed in the United States in order to prosecute its trade secrets claims. Although the Defend Trade Secrets Act (DTSA) guarantees a federal forum for trade secret theft claims, see 18 U.S.C. § 1836, Amyndas presents no evidence — and we can discern none in the record — that the DTSA was meant to supersede the forum-selection decisions of sophisticated parties.[3] Amyndas is on solid ***35** ground in noting that the DTSA's text and legislative history make pellucid that Congress was concerned with the theft of American trade secrets abroad and intended the DTSA to have extraterritorial reach. See 18 U.S.C. § 1837 (providing for extraterritorial applicability under certain circumstances); see, e.g., Pub L. 114-153, 130 Stat 376, 383-84 § 5 ("It is the sense of Congress that ... (1) trade secret theft occurs in the United States and around the world; (2) trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies"); S. Rep. No. 114-220 at 1-2, 11-12 (2016); H. Rep. No. 114–529 at 3-4, 15-16 (2016). But the bare fact that a law provides a federal cause of action with some extraterritorial reach does not prevent private parties from contracting either outside it or around it. Here, the mere existence of the DTSA — without any showing that the DTSA was linked to the parties' negotiations — does not inhibit a court's enforcement of the parties' forum-selection choices. See, e.g., Fintech Fund, F.L.P. v. Horne, 836 F. App'x 215, 227 (5th Cir. 2020) (affirming dismissal of case involving DTSA claim based on forum-selection clause designating England as forum).

The sockdolager, of course, is that — despite very general statements that the DTSA was intended to allow enforcement in federal court and that Congress was concerned by foreign trade secret theft — Amyndas has produced no compelling evidence that the forum-selection clause here "contravene[s] a strong public policy." M/S Bremen, 407 U.S. at 15, 92 S.Ct. 1907; see Rafael Rodríguez Barril, Inc. v. Conbraco Indus., Inc., 619 F.3d 90, 93-95 (1st Cir. 2010). Tellingly, Amyndas has identified no case in which a court concluded that the DTSA has been construed to trump a valid forum-selection clause. We decline to blaze a new trail through this uncharted terrain.

Amyndas next contends that the public interest in judicial economy warrants keeping all parties in the district court action because it would be inefficient and, thus, unreasonable to require Amyndas to litigate in Denmark while allowing its litigation against Alexion (and, possibly, Zealand US) to proceed in the district court. But Amyndas's private inconveniences in litigating its claims in Denmark were wholly foreseeable at the time Amyndas signed the CDAs and, thus, its private inconveniences bear no weight. See Atl. Marine, 571 U.S. at 64, 134 S.Ct. 568. To cinch the matter, public interest factors will rarely tip the balance: "forum-selection clauses should control except in unusual cases." Id. This is not so rare a case.

Assuming without deciding that judicial economy concerns may, under special circumstances, override a mandatory forum-selection clause, Amyndas has failed to show that any such sufficiently compelling circumstances are present here. Virtually all of the cases that Amyndas cites in support of this argument involve section 1404 transfer requests[4] and/or predate Atlantic Marine's injunction that "forum-selection clauses should control except in unusual cases." Id. We see no principled basis for accepting Amyndas's invitation to keep Zealand Pharma in the district court action in the interest of judicial economy.

We do not gainsay that Amyndas may now regret negotiating a forum-selection ***36** provision that gives Zealand Pharma home-court advantage and a more favorable choice of law for the trade secret dispute that has arisen. Those regrets may coalesce into a bitter lesson about looking at a nascent partnership through rose-colored glasses. But they are not a sufficient reason for disregarding the plain text and manifest purpose of a valid forum-selection clause.

That ends this aspect of the matter. We conclude that the forum-selection clause is valid and enforceable. Under its terms, Amyndas's claims against Zealand Pharma must be litigated in a Danish court. Accordingly, we uphold the district court's dismissal of Amyndas's claims against Zealand Pharma.

B

This brings us to Amyndas's claims against Zealand US. The district court dismissed the claims contained in the original complaint against Zealand US. The court noted that the complaint largely referred to "Zealand" as a single entity and did not specify whether and how Zealand US was involved. See Amyndas, 2021 WL 4551433, at *2-3. Twenty-eight days later, Amyndas sought leave to amend. Amyndas annexed to its motion a proposed amended complaint pleading its claims against each Zealand defendant separately. The district court denied leave to amend, and Amyndas appeals the denial with respect to its claims against Zealand US.[5]

[21] [22]The Civil Rules take a liberal stance toward the amendment of pleadings, consistent with the federal courts' longstanding policy favoring the resolution of disputes on the merits. See Foman v. Davis, 371 U.S. 178, 182, 83 S.Ct. 227, 9 L.Ed.2d 222 (1962) ("If the underlying facts or circumstances relied upon by a plaintiff may be a proper subject of relief, he ought to be afforded an opportunity to test his claim on the merits."). Rule 15(a) permits amendments with leave of court, which the court "should freely give ... when justice so requires." Fed. R. Civ. P. 15(a)(2). "In the absence of any apparent or declared reason — such as undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of allowance of the amendment, futility of amendment, etc. — the leave sought should, as the rules require, be 'freely given.' " Foman, 371 U.S. at 182, 83 S.Ct. 227; see Palmer v. Champion Mortg., 465 F.3d 24, 30 (1st Cir. 2006).

[23] [24] [25]A denial of leave to amend is reviewed for abuse of discretion. See Palmer, 465 F.3d at 30. A district court's "discretion is necessarily broad—but it is not absolute." Indep. Oil & Chem. Workers of Quincy, Inc. v. Procter & Gamble Mfg. Co., 864 F.2d 927, 929 (1st Cir. 1988). An "[a]buse occurs when a material factor deserving significant weight is ignored, when an improper factor is relied upon, or when all proper and no improper factors are assessed, but the court makes a serious mistake in weighing them." Id.

With respect to the claims against Zealand US, the district court's stated reasons for rejecting the proposed amended complaint and denying leave to amend fall into two recognizable buckets: undue delay and futility. As to undue delay, the court observed that "at no point in the course of the motion to dismiss process did Amyndas request ... leave to amend its pleading" ***37** and "[i]nstead, it waited until nearly a month had elapsed following the challenged Order before it first made such a request." Moreover, "the factual allegations Amyndas [sought] to add were publicly available prior to the hearing on the original motion to dismiss." The allegations, the court stated, were "not 'new,' and justice does not require that Amyndas be permitted to belatedly add them."

As to futility, the court ruled — without dissecting the substance of any of the allegations in the proposed amended complaint — that "none of the additional factual allegations change the analysis ... presented by the prior motion to dismiss." It concluded that "the proposed additional factual allegations" do not "plausibly allege a basis to conclude ... that Amyndas has stated claims directly against Zealand US." Thus, the court said, "Amyndas's request for leave to amend is futile."

Amyndas challenges both of the district court's stated grounds on appeal. We consider each ground in turn.

1

[26] [27] [28]A motion for leave to file an amended complaint "requires that a court examine the totality of the circumstances and exercise sound discretion in light of the pertinent balance of equitable considerations." Quaker State Oil Ref. Corp. v. Garrity Oil Co., 884 F.2d 1510, 1517 (1st Cir. 1989); see Palmer, 465 F.3d at 30-31. Although delay alone is not a sufficient basis for denying leave to amend, undue delay assuredly is. See, e.g., Hagerty ex rel. United States v. Cyberonics, Inc., 844 F.3d 26, 34 (1st Cir. 2016) (explaining that "undue delay, on its own, may be enough to justify denying a motion for leave to amend"); Hayes v. N. Eng. Millwork Distribs., Inc., 602 F.2d 15, 19 (1st Cir. 1979) (similar). When a party has allowed a "considerable period of time" to elapse, it must "show some 'valid reason for [its] neglect and delay.' " Hayes, 602 F.2d at 19-20; see In re Lombardo, 755 F.3d 1, 3 (1st Cir. 2014) (Souter, J.) ("[W]e have repeatedly said that when considerable time has elapsed ..., the movant has [at the very least] the burden of showing some valid reason for his neglect and delay." (internal quotation marks omitted) (second alteration in original)); Calderón-Serra v. Wilmington Tr. Co., 715 F.3d 14, 20 (1st Cir. 2013) ("Appreciable delay alone, in the absence of good reason for it, is enough to justify denying a motion for leave to amend."). Thus, for delay to be "undue," the period of delay must be both substantial and unjustified.

[29]Determining how long is too long depends on the facts and circumstances of each particular case. This inquiry considers the reasonableness of the time between the filing of the motion for leave and a variety of points at which a party would become aware of a need to amend, such as the filing of a motion to dismiss, a dismissal order, or the discovery of new information that substantially alters the substance or viability of the claims. See Hagerty, 844 F.3d at 34-35. Ascertaining whether a delay is "undue" is not simply a matter of counting days but, rather, depends on the "totality of the circumstances" in the particular case. Palmer, 465 F.3d at 31.

[30] [31]Of course, the reason offered for seeking leave to amend must be a "valid" one. See, e.g., Lombardo, 755 F.3d at 3; Hayes, 602 F.2d at 20. Generally, valid reasons include a motion to dismiss or a ruling from the court pointing out flaws in the original pleading or the discovery of new information. This is not a high hurdle, and the dispositive datum often will be the reasonableness of the pleader's actions. But even if the reasons are valid, the court must consider whether and to ***38** what extent the opposing party would be unfairly prejudiced as a result of a delayed amendment. See Zenith Radio Corp. v. Hazeltine Rsch., Inc., 401 U.S. 321, 330-31, 91 S.Ct. 795, 28 L.Ed.2d 77 (1971); Villanueva v. United States, 662 F.3d 124, 127 (1st Cir. 2011).

[32] [33]In particular cases, other factors may weigh in the balance. For instance, a court may consider whether a proposed amendment is a first attempt. See City of Mia. Fire Fighters' & Police Officers' Ret. Tr. v. CVS Health Corp., 46 F.4th 22, 35 (1st Cir. 2022) [No. 21-1479] (affirming denial of leave to amend when plaintiffs sought "a third bite of the apple in the form of a second amended complaint"); Aponte-Torres v. Univ. of P.R., 445 F.3d 50, 58 (1st Cir. 2006). Serial amendments may be given closer scrutiny in terms of timing because "busy trial courts, in the responsible exercise of their case management functions, may refuse to allow plaintiffs an endless number of trips to the well." Aponte-Torres, 445 F.3d at 58. So, too, the existence of related litigation may be a factor in the decisional calculus. See, e.g., Nikitine v. Wilmington Tr. Co., 715 F.3d 388, 389-91 (1st Cir. 2013).

[34] [35]In the case at hand, Amyndas had a valid reason for moving to amend: the district court had pointed out a fatal flaw in its original complaint (the failure to differentiate sufficiently between Zealand Pharma and Zealand US with respect to liability for the claims asserted). Although Amyndas moved for leave to amend only twenty-eight days after the district court dismissed its original complaint, the court found undue delay. The district

court's finding of undue delay was based on two particular circumstances. First, it faulted Amyndas for not requesting leave to amend during the motion-to-dismiss process, "even as an alternative." Waiting four weeks after the dismissal order to request leave to amend, the court concluded, was simply too late.[6] Second, the court concluded that many of the additional facts added in the proposed amended complaint were publicly available prior to the hearing on the motion to dismiss the original complaint and, thus, were not "new." Accordingly, "justice d[id] not require that Amyndas be permitted to belatedly add" its allegations.

Although the timing of a request for leave to amend and the relative novelty of the added allegations contained in the proposed amended complaint are relevant considerations, the district court's reasoning does not pass muster. Amyndas's delay in filing its motion for leave to amend fell well short of the timeframes that our cases have identified as undue and cannot, under all the circumstances, be characterized as substantial. Nor does the record, fairly read, suggest that Amyndas was dilatory. Amyndas filed its original complaint in December of 2021, faced a motion to dismiss from the Zealand defendants in March of 2022, had a hearing on that motion in May, and received the decision in June. It filed its motion for leave to amend a scant twenty-eight days later.

[36]The mere fact that Amyndas's motion for leave to amend came after the district court dismissed the original complaint ***39** is not sufficient to ground a conclusion that the motion was unduly delayed. It is common ground that "[a]mendments may be permitted pre-judgment, even after a dismissal for failure to state a claim." Palmer, 465 F.3d at 30. After all, the "when justice so requires" standard of Rule 15(a) puts a thumb on the scale in favor of allowing amendments in non-frivolous cases. See Foman, 371 U.S. at 182, 83 S.Ct. 227. Amyndas moved to amend before the district court entered judgment and, thus, Rule 15's more liberal standards apply here.[7]

Withal, we have understandably condemned "wait and see" amendment practices: a plaintiff may not, for instance, "deliberately wait in the wings for a year and a half with another amendment to a complaint should the court hold the first amended complaint was insufficient." ACA Fin. Guar. Corp. v. Advest, Inc., 512 F.3d 46, 57 (1st Cir. 2008); see Kader v. Sarepta Therapeutics, Inc., 887 F.3d 48, 61 (1st Cir. 2018); Palmer, 465 F.3d at 30-31. But here, there is no reason to conclude that Amyndas engaged in any such "wait and see" practices. Amyndas filed its motion to amend less than two months after the emergence of new evidence. And the amended complaint specifically addressed a defect identified by the district court in its dismissal of the original complaint: Amyndas's failure to differentiate sufficiently its claims between Zealand Pharma and Zealand US. See Amyndas, 2021 WL 4551433, at *2-3.

Although it is true that the Zealand defendants moved to dismiss based, in part, on that same defect, a relatively short period of time ensued between the date when Zealand's motion put Amyndas on notice of the defect and the date when Amyndas moved to amend. The length of the delay is, of course, a critical data point in determining whether a period of delay is "undue." See, e.g., Hagerty, 844 F.3d at 35 (denying motion to amend in face of year-long delay); Feliciano-Hernández v. Pereira-Castillo, 663 F.3d 527, 538 (1st Cir. 2011) (denying motion to amend in face of gap of "nearly a year"); Advest, 512 F.3d at 57 (faulting "year and a half" delay). Equally as important, this was not a case in which the plaintiff's complaint contained such an obvious defect that it was unreasonable to wait until the district court ruled on the motion to dismiss before moving to amend.

The district court's second ground for concluding that there was undue delay — that the allegations in the proposed amended complaint were not "new" — is no more convincing. We agree that most of the facts undergirding Amyndas's proposed amended complaint were available before the hearing on the motion to dismiss. But that circumstance, taken in a vacuum, cannot serve as a basis for denying Amyndas's motion to amend. Responding specifically to one of the district court's grounds for dismissal by realigning previously articulated facts — as Amyndas did here — is a legitimate basis for amendment.

We add, moreover, that this is a complex case in which ramified issues are at play. Especially in complex cases, lawyers ought not to be expected to cobble together pleadings at breakneck speed. Taking four weeks to assimilate information — including information not publicly available until the day before the motion-to-dismiss hearing — and to separate Amyndas's claims ***40** against Zealand US from its claims against Zealand Pharma is within the realm of reasonableness. As a result, Amyndas's delay cannot be fairly characterized as "undue."

[37]In addition, Amyndas's proposed amended complaint incorporated new information, not available to it when it drafted its original complaint. On this point, we reject the Zealand defendants' suggestion that a press release regarding trials of a complement therapeutic, issued jointly by Alexion and the Zealand entities on the day

before the motion-to-dismiss hearing, could not be regarded as "new" for purposes of Amyndas's proposed amended complaint. A party is not required to seek leave to amend its complaint each time a new piece of favorable information surfaces unless that new information is essential to the viability of its case. Although parties should ordinarily take their best shot and not sit on new facts, see, e.g., Kader, 887 F.3d at 61; Villanueva, 662 F.3d at 127, they should not be expected either to plead their cases in granular detail, see Fed. R. Civ. P. 8(a)(2) (requiring only "a short and plain statement of the claim showing that the pleader is entitled to relief"), or to seek leave to amend the very moment a few more facts come to light.

To sum up, Amyndas had a valid reason for seeking leave to amend and acted with reasonable diligence to cure the fatal defect in its original complaint and to put a proposed amended complaint before the district court. Its proposed amended complaint not only made changes that were directly responsive to the district court's stated reasons for dismissing the original complaint but also incorporated some new information. Given the totality of the circumstances, the twenty-eight-day period that elapsed between the dismissal of the original complaint and the filing of the motion to amend cannot fairly be characterized as "undue delay."

2

[38]The district court also cited futility as a further ground for denying leave to amend. A proposed amendment is futile if it is either frivolous or contains some fatal defect. See Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, 6 Fed. Prac. & Proc. Civ. § 1487 (3d ed. 2022). Normally, this means that "the complaint, as amended, would fail to state a claim upon which relief could be granted." Glassman v. Computervision Corp., 90 F.3d 617, 623 (1st Cir. 1996).

[39] [40]Whether a proposed amendment is futile is "gauged by reference to the liberal criteria of Federal Rule of Civil Procedure 12(b)(6)." Juarez v. Select Portfolio Servicing, Inc., 708 F.3d 269, 276 (1st Cir. 2013); Hatch v. Dep't of Child., Youth & Their Fams., 274 F.3d 12, 19 (1st Cir. 2001). Reference to those criteria teaches that if the amended complaint "contain[s] sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face,' " Ashcroft v. Iqbal, 556 U.S. 662, 678, 129 S.Ct. 1937, 173 L.Ed.2d 868 (2009) (quoting Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570, 127 S.Ct. 1955, 167 L.Ed.2d 929 (2007)), and contains no other fatal defects, the district court abuses its discretion by denying the motion to amend on futility grounds, see Abraham v. Woods Hole Oceanographic Inst., 553 F.3d 114, 117 (1st Cir. 2009); see also Schreiber Distrib. Co. v. Serv-Well Furniture Co., 806 F.2d 1393, 1401 (9th Cir. 1986) ("If a complaint is dismissed for failure to state a claim, leave to amend should be granted unless the court determines that the allegation of other facts consistent with the challenged pleading could not possibly cure the deficiency.").

***41** [41]The issue, then, is whether the proposed amended complaint states a facially plausible claim against Zealand US. For a start, the proposed amended complaint specifically differentiated between Zealand Pharma and Zealand US, thus curing the defect that the district court had specifically noted with respect to the original complaint. See Amyndas, 2021 WL 4551433, at *2-3. Amyndas's proposed amended complaint alleged separate counts against Zealand US for misappropriation of trade secrets under the DTSA (count VIII), misappropriation of trade secrets under Massachusetts General Laws chapter 93, section 42 (count IX), misappropriation of trade secrets under common law (count X), unfair competition (count XI), and unjust enrichment (count XII). Those allegations were sufficiently specific. For example, the proposed amended complaint contained allegations to support the proposition that Zealand US was engaged in the continuing use of Amyndas's improperly retained trade secrets, which (Amyndas posited) formed the basis for misappropriation claims under both federal and state law. See 18 U.S.C. §§ 1839(5)(A)-(B), 1836(d); Mass. Gen. Laws ch. 93, § 42; see also Oakwood Lab'ys LLC v. Thanoo, 999 F.3d 892, 909 (3d Cir. 2021).

Amyndas's allegations as to misappropriation in the proposed amended complaint included:

> • "Zealand U.S. impermissibly acquired and accessed, and continues to impermissibly have access to Amyndas' trade secrets through Zealand A/S, which has failed to destroy all Amyndas trade secret information or information derived therefrom, or to erect walls to prevent improper disclosure to Zealand U.S., in view of the termination of the Amyndas-Zealand discussions in 2017."
>
> • "[T]he Alexion-Zealand collaboration is, on information and belief, intended to research, develop, and commercialize technology improperly derived from Amyndas' trade secrets in the field of peptide pharmaceutical products, and Zealand U.S., as the arm of Zealand responsible for such efforts in the U.S. with respect to such peptide pharmaceutical products is, on information and belief, directly involved with those efforts."

• "[O]n information and belief, Zealand U.S., and its officers acting on behalf of Zealand U.S., participate in efforts relating to obtaining FDA approval for Zealand's peptide-based medicines, such as the recently-approved [product targeting the C3 protein]. Therefore ... Zealand U.S. and its officers have used and are currently using Amyndas' trade secrets in furtherance of the business purposes of Zealand U.S."

• "On information and belief, Zealand U.S. acts, at a minimum, as Zealand's representative to Alexion in connection with discussions, approvals and other developments related to Alexion's efforts to commercialize the products subject to the Zealand-Alexion agreement."

These allegations, when viewed in combination, define a distinct course of conduct by Zealand US and connect that course of conduct to the unauthorized use of Amyndas's trade secrets. Taken as true — as they must be, see Iqbal, 556 U.S. at 678-79, 129 S.Ct. 1937 — they adumbrate facially plausible claims for the misappropriation of trade secrets.

The allegations supporting the claims for unfair competition and unjust enrichment are similarly specific. The proposed amended complaint, taken as a whole, seemingly states plausible claims upon ***42** which relief could be granted. Yet, the district court did not engage with these allegations. Rather, it focused much of its futility analysis on the forum-selection clause. The only references to Zealand US contained in its minute order are conclusory.

Courts must take account of the reality of events. In a case like this one, much of the information concerning the division of roles, responsibilities, and potential wrongdoing will be in the possession of the defendants and may not become visible until after discovery is completed. Cf. Grant v. News Grp. Bos., Inc., 55 F.3d 1, 5 (1st Cir. 1995) (observing, in Title VII context, that district courts should be cautious about too quickly denying leave to amend in cases in which discovery will be essential to development of claims). The fact that Amyndas unarguably cured the fatal defect in the original complaint that had been identified by the district court, coupled with the nature, detail, and apparent plausibility of Amyndas's claims, renders a finding of futility insupportable.

3

We summarize succinctly. Amyndas sought to file a proposed amended complaint that stated facially plausible claims for relief against Zealand US. That represented Amyndas's first attempt at amendment. The district court's conclusion that Amyndas unduly delayed in moving for leave to file that complaint is insupportable, as is the district court's conclusion that the asserted claims are futile. And, finally, Zealand US has not advanced any credible claim of prejudice. We conclude, therefore, that the district court's denial of the motion to amend constituted an abuse of discretion. Consequently, both its denial of that motion and its subsequent dismissal of Amyndas's claims against Zealand US must be vacated, and the case must be remanded for further proceedings consistent with this opinion.

IV

We need go no further. For the reasons elucidated above, we affirm the dismissal of Amyndas's claims against Zealand Pharma. We vacate the dismissal of Amyndas's claims against Zealand US and remand for further proceedings consistent with this opinion. All parties shall bear their own costs.

Affirmed in part, vacated in part, and remanded.

All Citations

48 F.4th 18, 113 Fed.R.Serv.3d 984

Footnotes

1 Given the identicality of the two forum-selection clauses, we treat the two forum-selection clauses as one.

2 In point of fact, Amyndas began proceedings against Zealand Pharma in Denmark on January 10, 2022, and it has successfully obtained a stay of the contested patents from the European Patent Office.

3 We add, moreover, that when the first CDA was signed in March of 2015, the DTSA had not yet been enacted. Although the second CDA was signed in August of 2016 (after the DTSA became effective in May of that year), it would be hard to believe — given the identical nature of the forum-selection clauses and the other similarities in the documents — that either of the parties structured their conduct around the existence of the DTSA.

4 Section 1404 places a premium on considerations of judicial economy. See Cont'l Grain Co. v. The FBL-585, 364 U.S. 19, 26, 80 S.Ct. 1470, 4 L.Ed.2d 1540 (1960).

5 In the alternative, Amyndas asked the district court to reconsider the earlier order of dismissal. For all practical purposes, though, the original complaint has dropped out of the case.

6 Amyndas says that it did request leave to amend earlier in the process. In a footnote to its filings in opposition to the Zealand entities' motion to dismiss, it requested at a "minimum, or in the alternative, ... early discovery regarding Zealand US to allow Plaintiffs the opportunity to amend their Complaint, if necessary." The general rule, however, is that a district court need not pay heed to a contingent request for leave to amend made only in opposition papers. See Fisher v. Kadant, Inc., 589 F.3d 505, 509 (1st Cir. 2009).

7 These standards contrast with the somewhat stricter standards governing post-judgment motions to amend. See CVS Health, 46 F.4th at 36 [No. 21-1479] (emphasizing that plaintiffs sought leave to amend after judgment had entered so "Rule 15 was no longer on the table").

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842 Fed.Appx. 974
This case was not selected for publication in West's Federal Reporter.
See Fed. Rule of Appellate Procedure 32.1 generally governing citation of judicial decisions issued on or after Jan. 1, 2007. See also U.S.Ct. of App. 6th Cir. Rule 32.1.
United States Court of Appeals, Sixth Circuit.

ATRICURE, INC., Plaintiff-Appellee,
v.
Dr. JIAN MENG, et al., Defendants-Appellants.

Case No. 20-3264
|
FILED January 21, 2021

Synopsis

Background: Medical device company filed suit against its distributor in China claiming misappropriation of trade secrets, in violation of Ohio Uniform Trade Secrets Act (OUTSA). The United States District Court for the Southern District of Ohio, Michael Ryan Barrett, Senior District Judge, granted company's request for preliminary injunction. Distributor appealed.

Holdings: The Court of Appeals, McKeague, Senior Circuit Judge, held that:

[1] preliminary injunction's description of trade secrets was sufficiently specific, as required to enjoin use;

[2] evidence was sufficient to support medical device company's claim that it sent its distributor in China trade secret information;

[3] evidence was sufficient to support company's claim that its distributor used its trade secret information;

[4] company was likely to succeed on the merits of claim against distributor for misappropriation of trade secrets;

[5] international reach of preliminary injunction under OUTSA comported with the equities of the case and did not offend international comity; and

[6] OUTSA provided remedy for trade secret misconduct occurring in China.

Affirmed.

West Headnotes (6)

[1] **Injunction**Form and requisites

Preliminary injunction's description of medical device company's trade secrets was sufficiently specific, as required to enjoin company's China distributor's use of them, pending trial on the merits on claim for violation of Ohio Uniform Trade Secrets Act (OUTSA); injunction listed likely trade secrets as the "internal design, the external design, technical information and functioning" of company's isolator system and its components, company's "AtriClip" clamp, and the algorithm contained within company's ablation and sensing unit. Ohio Rev. Code Ann. § 1333.61(D).

3 Cases that cite this headnote

[2] **Injunction**Disclosure or use of trade secrets or confidential information

Evidence was sufficient to support medical device company's claim that it sent its distributor in China trade secret information, as required to support preliminary injunction enjoining distributor's use of its trade secrets pending trial on the merits on claim for violation of Ohio Uniform Trade Secrets Act (OUTSA); evidence included testimony of company's chief operating officer (COO) that company had sent distributor drawings, specifications, and tolerances, among other things, company's chief executive officer's (CEO) testimony that distributor had taken all of company's documents and basically copied its products, and circumstantial evidence of similarity between company's devices and distributor's devices. Ohio Rev. Code Ann. § 1333.61(D).

5 Cases that cite this headnote

[3] **Injunction**Disclosure or use of trade secrets or confidential information

Evidence was sufficient to support medical device company's claim that its distributor in China used its trade secret information, rather than obtaining it through reverse-engineering of its devices, as required to support preliminary injunction enjoining distributor's use, pending trial on the merits on claim for violation of Ohio Uniform Trade Secrets Act (OUTSA); evidence included distributor's admission to taking the technology, court's own examination of the products inside and out, during which court found the products nearly identical, and company's chief technology officer's (CTO) testimony about the striking similarities between the products. Ohio Rev. Code Ann. § 1333.61(D).

1 Case that cites this headnote

[4] **Injunction**Disclosure or use of trade secrets or confidential information

Medical device company was likely to succeed on the merits of claim against distributor in China for misappropriation of trade secrets, in violation of Ohio Uniform Trade Secrets Act (OUTSA), as required for preliminary injunction enjoining distributor's use of them pending trial on the merits; company claimed it had shared its designs with its distributor who then used its trade secrets in China to produce his own identical devices, which were sold in direct competition with those of owner of the trade secrets. Ohio Rev. Code Ann. § 1333.61(D).

6 Cases that cite this headnote

[5] **Injunction**Disclosure or use of trade secrets or confidential information

International reach of preliminary injunction prohibiting medical device company's distributor from selling, in China, devices created through misappropriation of its trade secrets, in violation of Ohio Uniform Trade Secrets Act (OUTSA), comported with the equities of the case and did not offend international comity where preliminary injunction enjoined distributor only from activities by which he could profit from selling products substantially similar to those of company, purpose of injunction was to halt any further alleged harm to company, and limiting scope of injunction to only the United States would afford company almost no protection. Ohio Rev. Code Ann. § 1333.61(D).

[6] **Antitrust and Trade Regulation**What law governs

Ohio Uniform Trade Secrets Act (OUTSA) provided a remedy for medical device company's distributor's conduct misappropriating its trade secrets occurring, at least substantially, in China, since it was necessary to eliminate distributor's commercial advantage in that country; company hired distributor because it needed a Chinese agent to register and sell its products in China, and once distributor allegedly misappropriated company's trade secrets and began to sell its products in China, company was unable to compete. Ohio Rev. Code Ann. § 1333.62.

***976** ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF OHIO

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BEFORE: COLE, Chief Judge; McKEAGUE and WHITE, Circuit Judges.

OPINION

McKEAGUE, Circuit Judge.

AtriCure, Inc. (AtriCure) sued its long-time Chinese distributor Dr. Jian Meng when AtriCure began to believe that Dr. Meng used confidential information to copy the entire line of products Dr. Meng distributed for AtriCure. After a two-day hearing, the district court granted AtriCure a preliminary injunction based on AtriCure's trade-secret claim, enjoining Dr. Meng and his companies from marketing, producing, and selling any products substantially similar to AtriCure's. Dr. Meng appeals, arguing that AtriCure did not adequately prove any information to be a trade secret, that AtriCure did not adequately prove Dr. Meng received and used any information, and that the injunction should not reach into China. We **AFFIRM** the district court's grant of the preliminary injunction.

I

AtriCure is an Ohio medical-device company that sells products to treat atrial fibrillation (Afib), a degenerative heart disease characterized by an irregular heartbeat. AtriCure developed the Isolator Synergy Ablation System (Isolator System) in ***977** the early 2000s. The Isolator System is a cardiac ablation device, using physical force and electricity to carefully treat the cardiac tissues that cause Afib.

The Isolator System has several components. The most important is the Ablation and Sensing Unit (ASU), which houses the algorithm that controls the System. There are also the Ablation Switch Box (ASB) and the single-use clamps and pens, which surgeons use to operate when plugged into the ASU and ASB. The key difference between the Isolator System and other ablation systems is that the Isolator System takes in data relating to the tissue characteristics of the patient's heart and uses its algorithm to make dynamic changes to the amount of mechanical pressure and electricity output used to ablate the tissue. Other devices just output a fixed amount of electricity. That makes the algorithm, the brain of the system, unique on the market.

AtriCure also produces the AtriClip. The AtriClip treats Afib by blocking the left atrial appendage, improving upon prior usage of sutures, staples, or removal of the appendage. The district court found that "AtriClip is unique on the market ... [because of] its ability to clamp onto tissue and allow that tissue to be reabsorbed into the body, the ability to deliver force dynamically depending on the type of tissue (e.g., 'fatty tissue'), and the specific knit-braided fabric utilized."

AtriCure spent a lot of time and money developing the Isolator System and the AtriClip. Getting the Isolator System to market took at least fifty million dollars. AtriCure's business-model also has high entry barriers. AtriCure does not make money by selling the Isolator System. Instead, AtriCure loans the Systems to hospitals and sells the hospitals the disposable parts like the clamps and the pens. At the time of the preliminary-injunction hearing, AtriCure had 75% of the U.S. market and 60% of the world market for Afib treatment.

Dr. Jian Meng was AtriCure's distributor in China from 2005 until 2017. AtriCure needed a Chinese agent to register and sell its products in China, and Dr. Meng (a Chinese citizen) approached AtriCure for a partnership for that purpose. In particular, Dr. Meng[1] was responsible for getting AtriCure's line of products registered by the Chinese analog to the Food and Drug Administration (CFDA). Dr. Meng signed multiple distribution agreements with AtriCure that included non-compete clauses and confidentiality agreements.

Unbeknownst to AtriCure, Dr. Meng was the president of Med-Zenith, AtriCure's Chinese competitor. Med-Zenith produces cardiac ablation products, including an ablation system, clamps, and pens. The products look very similar to their AtriCure counterparts (according to the district court), but Med-Zenith asserts that it developed them by doing market research and looking at the devices of companies other than AtriCure. According to Med-Zenith, the algorithm in its ablation system was developed by a different company, Shanghai Hong Tong Industrial Co., Ltd., Med-Zenith did not assist Hong Tong with their algorithm, and Med-Zenith has no access to Hong Tong's algorithm. Med-Zenith also produces an adaptor that connects clamps to ablation systems; the adaptor can connect Med-Zenith clamps to the AtriCure ASU. Med-Zenith gives these adaptors to Chinese hospitals for free. ***978** While Med-Zenith's products have only Chinese patents as of yet, Med-Zenith has United States patents pending and is applying for patents worldwide.

AtriCure eventually became aware of Med-Zenith and sued Dr. Meng for trade-secret misappropriation, among other claims. AtriCure alleges that,

> [a]s a result of the 2005 and 2011 Distribution Agreements, and the respective renewals thereof, Dr. Meng and his entities were given access to proprietary and confidential information owned by AtriCure, including detailed drawings and manufacturing specifications for materials, information regarding the pricing and vendors of AtriCure's products, the proprietary ASU algorithm, and the function and use of AtriCure's products.

Dr. Meng used that confidential information, AtriCure alleges, to create an entire line of competing products.

AtriCure moved for a preliminary injunction to prevent Dr. Meng "from continuing to manufacture and sell counterfeit versions of AtriCure's medical devices in the United States and worldwide during the pendency of this litigation." The district court held a hearing. AtriCure presented seven witnesses, including (1) Douglas Seith, AtriCure's Chief Operating Officer (COO), (2) Salvatore Privitera, AtriCure's Chief Technology Officer (CTO), and (3) Michael Carrel, AtriCure's Chief Executive Officer (CEO), among others. Both parties submitted exhibits, and Dr. Meng presented no witnesses. Dr. Meng neither testified nor submitted a declaration.

The district court granted the injunction. The court found that "[t]he internal design, the external design, technical information and functioning of the AtriCure Isolator System and its components, ... the AtriClip, ... [and t]he algorithm contained within the AtriCure ASU" were trade secrets. The court also found that "Dr. Meng and his companies were given access to the alleged trade secrets," that Dr. Meng "admitted to AtriCure's CEO [Carrel] ... that Med-Zenith had taken AtriCure's technology," and that Dr. Meng's factual assertions that they built their products independently were not credible. The district court concluded that AtriCure was likely to succeed on the merits of its trade-secret misappropriation claim and issued a preliminary injunction with worldwide effect. The injunction prohibits Dr. Meng from "[m]anufacturing, creating, ... [m]arketing, [and] selling" any product "substantially similar to any of ... AtriCure['s] [p]roducts," as well as prohibiting Dr. Meng from "[s]elling or providing free of charge the adapter" that links the AtriCure ASU to other products.

Dr. Meng appeals.

II

The standard of review for a preliminary injunction is abuse of discretion, with legal conclusions reviewed de novo and factual findings reviewed for clear error. *Enchant Christmas Light Maze & Mkt. Ltd. v. Glowco, LLC*, 958 F.3d 532, 536 (6th Cir. 2020). "A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest." *Thompson v. DeWine*, 976 F.3d 610, 614–15 (6th Cir. 2020) (quoting *Winter v. NRDC*, 555 U.S. 7, 20, 129 S.Ct. 365, 172 L.Ed.2d 249 (2008)). On appeal, likelihood of success on the merits is a legal conclusion reviewed de novo. *Certified Restoration Dry Cleaning Network, L.L.C. v. Tenke Corp.*, 511 F.3d 535, 541 (6th Cir. 2007). The remaining factors are factual determinations reviewed ***979** for clear error. *Blue Cross & Blue Shield Mut. of Ohio v. Blue Cross & Blue Shield Ass'n*, 110 F.3d 318, 333 (6th Cir. 1997).

The standards of proof and evidentiary burdens under the Ohio Uniform Trade Secrets Act (OUTSA) are relevant to whether AtriCure established that it is likely to succeed on the merits. "Whether information constitutes a trade secret is a question of fact." *In re Rev. of Alt. Energy Rider Contained in Tariffs of Ohio Edison Co.*, 153 Ohio St.3d 289, 106 N.E.3d 1, 9 (2018). The plaintiff bears the burden to prove a trade secret, *State ex rel. Luken v. Corp. for Findlay Mkt. of Cincinnati*, 135 Ohio St.3d 416, 988 N.E.2d 546, 551 (2013), by a preponderance of the evidence, *Fred Siegel Co., L.P.A. v. Arter & Hadden*, 85 Ohio St.3d 171, 707 N.E.2d 853, 862 (1999). To obtain an injunction under Ohio Rev. Code § 1333.62, a plaintiff must prove the trade-secret claim's elements by clear and convincing evidence. *Procter & Gamble Co. v. Stoneham*, 140 Ohio App.3d 260, 747 N.E.2d 268, 273 (2000).

III

The district court held that AtriCure was likely to succeed on its trade-secret claim and Dr. Meng appeals that holding. The key disputes are whether AtriCure adequately specified what information related to its products are trade secrets, and whether AtriCure proffered evidence to show that Dr. Meng received and used the trade secrets. These are fact questions. Affording the district court the deference due under clear-error review and considering that "[a] party is ... not required to prove his case in full at a preliminary-injunction hearing," we find no clear error, we affirm the district court's likelihood-of-success holding, and we affirm the grant of the preliminary injunction. *Univ. of Tex. v. Camenisch*, 451 U.S. 390, 395, 101 S.Ct. 1830, 68 L.Ed.2d 175 (1981).

A.

The trade-secret claim here is a creature of state law. In 1994, Ohio adopted OUTSA. Ohio Rev. Code §§ 1333.61–69. OUTSA codified the preceding common law, *Hydrofarm, Inc. v. Orendorff*, 180 Ohio App.3d 339, 905 N.E.2d 658, 663 (2008), and aligned Ohio law with the other states adopting the Uniform Act, *Al Minor & Assocs., Inc. v. Martin*, 117 Ohio St.3d 58, 881 N.E.2d 850, 854 (2008).

A trade secret is information.[2] The information must derive value from its secrecy and cannot be "readily ascertainable by proper means." Ohio Rev. Code § 1333.61(D)(1). Examples "includ[e] the whole or any portion ... of ... technical information, design[s], ... [and] device[s]." *Id.* § 1333.61(D). A plaintiff can prove trade-secret misappropriation under OUTSA by proving a defendant's "acquisition" of the secret or "disclosure or use" of the secret. *Id.* § 1333.61(B).

B.

Here, the district court held that AtriCure was likely to prove trade-secret misappropriation by use. The holding was premised on three factual findings: (1) that the enumerated pieces of information were sufficiently specific trade secrets, (2) that AtriCure sent the trade secrets to Dr. ***980** Meng, and (3) that Dr. Meng used the trade secrets. Reviewing for clear error and cognizant that "a preliminary injunction is customarily granted on the basis of ... evidence that is less complete," we affirm the findings. *Camenisch*, 451 U.S. at 395, 101 S.Ct. 1830. Accordingly, the district court did not err in holding AtriCure to be likely to succeed on its trade-secret misappropriation claim. *See Brake Parts, Inc. v. Lewis*, 443 F. App'x 27, 31 (6th Cir. 2011) (holding that the legal conclusion was "inevitable" after affirming the same factual findings).

1. The district court's trade-secret findings were sufficiently specific.

The district court listed the likely trade secrets as "[t]he internal design, the external design, technical information and functioning of the AtriCure Isolator System and its components, ... the AtriClip, ... [and t]he algorithm contained within the AtriCure ASU." Dr. Meng argues that the district court's definitions were not sufficiently specific.

A plaintiff is required to identify a trade secret with specificity to separate the secret from general knowledge. *See Alice's Home v. Childcraft Educ. Corp.*, No. 09-299, 2010 WL 3448319, at *4 (Ohio Ct. App. 2010) (stating that the proponent of a trade secret must "fully articulat[e] ... precisely what aspects of [a product] ... constitute[ ] a protectable trade secret"); *see also Daimler-Chrysler Servs. N. Am., LLC v. Summit Nat'l, Inc.*, 289 F. App'x 916, 922 (6th Cir. 2008) ("[T]he secret information must afford the owner a competitive advantage by having value to the owner and potential competitors.").

But the specificity bar is not as high as Dr. Meng tries to set it. The district court made specific findings about what makes AtriCure's products uniquely valuable. For example, the district court found that "the AtriClip's unique properties consist of, among other things, its ability to clamp onto tissue and allow that tissue to be reabsorbed into the body." Regarding the algorithm, the district court found that the "algorithm performs virtually simultaneous multi-factorial problem solving that allows the system to assess ablation success as it is happening and adjusts the power or other technological factors of the system in real time," and found that feature to be unique across the market. *ClearOne Commc'ns, Inc. v. Bowers*, 643 F.3d 735, 753 (10th Cir. 2011) (holding that a unique algorithm, being "exceptionally difficult" to replicate, is a trade secret).

The district court could have been more specific about the unique features of the products, including AtriCure's clamp. But this case is sufficiently distinct from those to which Dr. Meng looks to for support. For example, Dr. Meng cites to *AMP Inc. v. Fleischhacker* for the proposition that the definition of a trade secret as "confidential business and technical information" is too broad. 823 F.2d 1199, 1203 (7th Cir. 1987). But the issue in that case was that "the plaintiff [could not] point to any tangible work product, such as blueprints, designs, plans, processes, or other technical specifications, at risk of misappropriation." *Id.* at 1205.

[1]Here, the district court found that AtriCure gave Dr. Meng "detailed drawings and manufacturing specifications for materials" in order to "assist with approvals and distribution of all components of AtriCure's Isolator System." So even the products for which the district court failed to make explicit findings about unique features survive the specificity requirement. As long as the district court did not clearly err in finding that such drawings relating to each component changed hands, then we cannot say the district court clearly erred ***981** by defining the trade secrets too generally as to any component.

2. The district court did not clearly err in finding that AtriCure sent Dr. Meng trade-secret information.

Dr. Meng argues that AtriCure provided "no evidence" that Dr. Meng received any information relating to AtriCure's products. But the district court credited AtriCure's COO's testimony that AtriCure gave Dr. Meng "everything, soup to nuts, on how the devices were built." The COO could not identify specific documents but testified that for Dr. Meng to obtain CFDA approval and licenses, AtriCure sent Dr. Meng "drawings," "specifications," and "probably tolerances," among other things. And that was not the only evidence of transmission. The CEO testified that Dr. Meng had "taken all of our documents and basically copied our product."

[2]The district court did not clearly err in crediting these statements. First, Dr. Meng did not testify (or submit a declaration) to the contrary. Second, the district court interpreted testimony from both the COO and the CEO to be an admission by Dr. Meng that Dr. Meng took AtriCure's technology.[3] Finally, the district court used the similarity between Dr. Meng's and AtriCure's devices as circumstantial evidence that Dr. Meng had access to secret information. *Stratienko v. Cordis Corp.*, 429 F.3d 592, 601 n.2 (6th Cir. 2005) (noting that circumstantial evidence is permissible in trade-secret cases); *EEMSO, Inc. v. Compex Techs., Inc.*, No. 05-0897, 2006 WL 2583174, at *8 (N.D. Tex. Aug. 31, 2006) (holding that similarities between products was the "most compelling[ ]" evidence that the defendant obtained trade-secret information). "The [district] court's interpretation of the evidence is not only permissible, but logical." *Brake Parts*, 443 F. App'x at 31.

3. The district court did not clearly err in finding that Dr. Meng used the trade-secret information.

[3]Armed with the finding that AtriCure sent Dr. Meng the trade-secret information, it is easy to likewise affirm the finding that Dr. Meng used the information. Dr. Meng argues that "superficial similarities in form or function" cannot demonstrate trade-secret usage. But here, the district court relied on Dr. Meng's admission to taking the technology, the court's own examination of the products (inside and out) during which the court found the products "nearly identical," and AtriCure's CTO's testimony about the striking similarities between the products. Having accepted the findings that AtriCure's products' designs were trade secrets and that AtriCure sent the trade secrets to Dr. Meng, the question at this juncture is not whether the conspicuous similarities could have been the product of reverse-engineering. Rather, the question is whether the district court clearly erred by finding that Dr. Meng used AtriCure's trade secrets—not reverse engineering—to make his products. The district court thus permissibly premised the use finding on the antecedent finding that Dr. Meng was selling "a full line of products that mimic the entire AtriCure line of products." Again, we conclude that "the [district] court offers the most sensible interpretation of the evidence." *Brake Parts*, 443 F. App'x at 31.

***982 4. The district court did not err in holding that the production and distribution of the Med-Zenith adaptor was likely a misappropriation of the trade-secret algorithm.**

Dr. Meng correctly asserts that no evidence definitively demonstrates that AtriCure sent its proprietary algorithm source code to Dr. Meng. On the contrary, the fact that Dr. Meng developed an adaptor in order to plug AtriCure's ASU into his own products indicates that Dr. Meng had neither the algorithm source code nor a replication of the algorithm.

But "use" is a broad term for trade secrets. "As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment of the defendant is a 'use.' " Restatement (Third) of Unfair

Competition § 40 cmt. c. For example, "relying on the trade secret to assist or accelerate research or development" is a use. *Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867, 877 (5th Cir. 2013) (quoting *Gen. Universal Sys. Inc. v. HAL Inc.*, 500 F.3d 444, 451 (5th Cir. 2007)). Here, the district court found that "AtriCure spent approximately fifty million dollars and hundreds of thousands of man-hours in research and development to bring the Isolator System to market," and the algorithm code is the System's critical input. It seems that Dr. Meng could not crack the code, so he figured out a way to profit from the code without cracking it. That demonstrates ingenuity, but also likely injury to AtriCure.

Thus, even if the district court clearly erred in finding that AtriCure sent the algorithm source code to Dr. Meng, the trade-secret claim with regard to the algorithm and the adaptor is still likely to succeed.

* * *

[4]"Piecing together the district court's separate factual findings—" (1) that AtriCure's designs, etc., "are trade secrets and (2) that [Dr. Meng] received and used these secrets ... leads us to the inevitable conclusion that [AtriCure] demonstrated an adequate likelihood of success on the merits." *Brake Parts*, 443 F. App'x at 31. We expect the debate over the evidence's sufficiency to continue at trial, but at this stage we hold that AtriCure "has raised questions going to the merits so serious, substantial, difficult, and doubtful as to make them a fair ground for litigation." *Six Clinics Holding Corp., II v. Cafcomp Sys., Inc.*, 119 F.3d 393, 403 (6th Cir. 1997).

We likewise see no clear error in the district court's analysis of the remaining preliminary-injunction factors. We therefore affirm the district court's grant of the preliminary injunction.

IV

But we're not finished just yet. Two questions about the preliminary injunction remain: (1) whether the district court abused its discretion in determining the scope of the injunction, and (2) whether OUTSA has extraterritorial effect. Answering the former "no" and the latter "yes," we affirm.

1. The district court did not abuse its discretion in determining the scope of the injunction.

Federal courts have the authority to issue orders with international reach. *See, e.g.*, *Steele v. Bulova Watch Co.*, 344 U.S. 280, 289, 73 S.Ct. 252, 97 L.Ed. 319 (1952); *Rogers v. Webster*, 779 F.2d 52, 1985 WL 13788, at *2 (6th Cir. 1985) (per curiam) (unpublished table decision). Of course, the discretion to exercise such authority is not without limit. *See* 11A Charles Alan Wright & Arthur Miller, ***983** *Federal Practice and Procedure* § 2945 (3d ed. Oct. 2020 update) (discussing common considerations). One critical limitation is whether the order, such as an injunction, offends international comity. *See* *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 799, 113 S.Ct. 2891, 125 L.Ed.2d 612 (1993). As such, we construe Dr. Meng's argument on appeal that "[t]he district court's extraterritorial preliminary injunction exceeded its authority" as arguing that the district court abused its discretion. *See* *Trump v. Int'l Refugee Assistance Project*, ––– U.S. ––––, 137 S. Ct. 2080, 2087, 198 L.Ed.2d 643 (2017) (per curiam) ("Crafting a preliminary injunction is an exercise of discretion and judgment, often dependent as much on the equities of a given case as the substance of the legal issues it presents.").

[5]We hold that the international reach of the injunction comports with the equities of the case and that the injunction does not offend international comity. The district court enjoined Dr. Meng only from activities by which he could profit from selling products "substantially similar" to AtriCure's. The purpose of the injunction is to halt any further alleged harm to AtriCure. To limit the scope of the injunction to the United States would afford AtriCure almost no protection. That's why international injunctions are often necessary, before and after trial, in trade-secret cases. *See* *Bowers*, 643 F.3d at 752; *Lamb-Weston, Inc. v. McCain Foods, Ltd.*, 941 F.2d 970, 974 (9th Cir. 1991); *Nordson Corp. v. Plasschaert*, 674 F.2d 1371, 1377 (11th Cir. 1982) (applying Ohio trade-secret common law); Restatement (Third) of Unfair Competition § 44 cmt. d (1995) ("Geographic limitations are not ordinarily appropriate in trade secret injunctions."). The international scope of the injunction was within the district court's discretion.

Regarding international comity, Dr. Meng argues that his products are approved for sale in China and raises the concept of choice-of-law without analysis. This is insufficient to merit a reversal of the preliminary injunction on comity grounds. Dr. Meng did not, for example, demonstrate that the court's "decree would require one to 'violate foreign law' or would 'place [one] under risk of double liability.' " *Rogers*, 779 F.2d 52, at *3 (quoting *United States v. First Nat'l City Bank*, 379

U.S. 378, 384, 85 S.Ct. 528, 13 L.Ed.2d 365 (1965)). And as the district court noted, the United States and China recently signed an agreement that "emphasizes trade secret protection." Economic and Trade Agreement Between the Government of the United States of America and the Government of the People's Republic of China, Jan. 15, 2020, ch.1 § B. Rather than presenting irredeemable conflict, the United States's and China's trade-secret laws have substantial overlap, including the permissibility of preliminary and permanent injunctions. *See* Melvin F. Jager, 4 Trade Secrets Law, App. Q (2020); *see also E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 894 F. Supp. 2d 691, 719 (E.D. Va. 2012), *vacated and remanded on other grounds*, 564 F. App'x 710 (4th Cir. 2014). The district court did not abuse its discretion by determining the injunction did not offend international comity.

2. OUTSA has extraterritorial effect.

[6]Implicit in Dr. Meng's injunction argument is the question of whether OUTSA can apply extraterritorially. In other words, the question is whether OUTSA provides a remedy for conduct occurring, at least substantially, outside of Ohio. We hold, at least in this case, that it does.

States may regulate conduct extraterritorially. *Skiriotes v. Florida*, 313 U.S. 69, 77, 61 S.Ct. 924, 85 L.Ed. 1193 (1941). But Ohio courts have not explicitly addressed ***984** whether, or in what circumstances, OUTSA has extraterritorial reach.[4] So we turn to statutory interpretation.

The text of OUTSA has no clear statement for or against extraterritorial effect. But the intent of the statute is the lodestar of statutory interpretation in Ohio. *Piazza v. Cuyahoga County*, 157 Ohio St.3d 497, 138 N.E.3d 1108, 1112 (2019). And the statute's injunction provision implies an extraterritorial intent. Trade-secret injunctions stretch either until a trade-secret has "ceased to exist" or until the injunction "eliminate[s the] commercial advantage that otherwise would be derived from the misappropriation." Ohio Rev. Code § 1333.62. This language falls on the side of extraterritoriality because only extraterritoriality could achieve the legislature's intent to eliminate the violator's commercial advantage.

The legislative history, though sparse, also favors extraterritoriality. A proponent of the bill told the Ohio Senate that the law was necessary "due to the 'explosion' in the development of computer software and the proliferation of companies expanding into the international market." *Hearing on H.B. 320 Before the S. Econ. Dev., Tech., and Aerospace Comm.*, 120th General Assembly (Ohio 1994) (statement of Dwight Marshall, Ohio State Bar Ass'n). The Ohio legislature thus contemplated the possibility of international injury and remedy to domestic companies.

The purposes underlying pre-OUTSA Ohio trade-secret injunctions also indicate an extraterritorial effect.

> The underlying purposes of the injunction in this case are: to prevent [Defendants] from being unjustly enriched, to prevent [Plaintiff's] secrets from being disclosed to the public without its consent, to penalize [Defendants] for their unethical and unlawful behavior, and to protect [Plaintiff's] investment.

Valco Cincinnati, Inc. v. N & D Machining Serv., Inc., 24 Ohio St.3d 41, 492 N.E.2d 814, 820 (1986). If the protections could not reach beyond Ohio's borders, the law could accomplish none of those purposes in many cases. And because OUTSA codified the existing common law, *Hydrofarm*, 905 N.E.2d at 663, the fact that trade-secret injunctions generally lacked geographic restrictions at common law is important, *Plasschaert*, 674 F.2d at 1377 (extraterritorial injunction under Ohio trade-secret common law); Restatement (Third) of Unfair Competition § 44 cmt. d (1995).

Finally, to hold that OUTSA lacks extraterritorial reach would be out-of-step with precedent. Our Circuit has allowed extraterritorial injunctions under OUTSA and its sister-state analogs. *See, e.g.*, *RGIS, LLC v. Gerdes*, 817 F. App'x 158, 163 (6th Cir. 2020); *Brake Parts*, Nos. 09-132, 10-212, 2011 WL 93036, at *1 (E.D. Ky. January 11, 2011), *aff'd*, 443 F. App'x 27 (6th Cir. 2011); *Park-Ohio Indus., Inc. v. Carter*, No. 06-15652, 2007 WL 470405, at *14 (E.D. Mich. Feb. 8, 2007). As have others. *See, e.g.*, *Walmart Inc. v. Cuker Interactive, LLC*, 949 F.3d 1101, 1113 (8th Cir. 2020); *Bowers*, 643 F.3d at 752; *Lamb-Weston*, 941 F.2d at 974; *DuPont*, 894 F. Supp. 2d at 713. We won't depart from these cases here.

Two other quick points merit mention. We decline Dr. Meng's invitation to graft an effects test, such as that applied to Lanham Act cases, onto OUTSA's application. ***985** *Cf. Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956) (articulating an early version of the test). That effects test is derivative from the Supreme Court's interpretation of the text of the Lanham Act in light of the federal presumption against extraterritoriality. *Steele*, 344 U.S. at 286–87, 73 S.Ct. 252. Neither the text of the Lanham Act nor a presumption against extraterritoriality are relevant here.[5] *See DuPont*, 894 F. Supp. 2d at 716.

At base, trade-secret injunctions are meant to "place the injured party in the position that he or she would have been in had the misappropriation of the trade secret not taken place." *See* Robert F. Koets, 88 Ohio Jur. 3d Trade Secrets § 25 (3d ed. Aug. 2020 update). Without the possibility for remedies reaching out-of-state and internationally, OUTSA would be unable to achieve that goal.

V

For the reasons above, we AFFIRM the order of the district court.

All Citations

842 Fed.Appx. 974

Footnotes

1 This opinion refers to the defendants collectively, for the sake of simplicity, as "Dr. Meng."

2 There is a six-factor test to determine if information is a trade secret. *See* *State ex rel. The Plain Dealer v. Ohio Dep't of Ins.*, 80 Ohio St.3d 513, 687 N.E.2d 661, 672 (1997) (first enumerating the factors for Ohio); *see* Restatement (First) of Torts § 757 cmt. b. The test is met in this case, but the analysis is not central to the appeal because Dr. Meng challenges a premise that precedes the factor test: whether Dr. Meng even had the specific information as alleged by AtriCure.

3 AtriCure's CEO testified that after he confronted Dr. Meng in Amsterdam about Med-Zenith's competing products, Dr. Meng "admitted that he ran [Med-Zenith], and he told me that yes, in fact, it had taken our technology and that they were basically in the process of building it out."

4 We note that whether OUTSA reaches extraterritorially is a merits question, because if the statute cannot give AtriCure the remedy it seeks then AtriCure would fail to state a claim. *Cf.* *Trader Joe's Co. v. Hallatt*, 835 F.3d 960, 986 (9th Cir. 2016) (holding that whether the Lanham Act reaches extraterritoriality is a merits question).

5 At oral argument, Dr. Meng contended that Ohio employs a presumption against extraterritoriality by citing to *Stetson v. City Bank of New Orleans*, 2 Ohio St. 167, 174 (1853). More recent case law demonstrates that Ohio does not apply such a presumption in interpreting statutes. *See, e.g.*, *State ex rel. Natalina Food Co. v. Ohio Civ. Rts. Comm'n*, 55 Ohio St.3d 98, 562 N.E.2d 1383, 1385 (1990); *Federated Mgmt. Co. v. Coopers & Lybrand*, 137 Ohio App.3d 366, 738 N.E.2d 842, 856–58 (2000); *see also* William S. Dodge, *Presumptions Against Extraterritoriality in State Law*, 52 U.C. Davis L. Rev. 1389, 1404 (2020).

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60 F.4th 119
United States Court of Appeals, Fourth Circuit.

DMARCIAN, INC., Plaintiff – Appellee,
v.
DMARCIAN EUROPE BV, Defendant - Appellant.
dmarcian, Inc., Plaintiff – Appellee,
v.
dmarcian Europe BV, Defendant – Appellant.
dmarcian, Inc., Plaintiff – Appellee,
v.
dmarcian Europe BV, Defendant – Appellant.

No. 21-1721, No. 21-2005, No. 22-1728
|
Argued: December 8, 2022
|
Decided: February 14, 2023

Synopsis
Background: North Carolina software company brought action against its Dutch partner that had a license to sell company's software in Europe and Africa, alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference. The United States District Court for the Western District of North Carolina, Martin Reidinger, Chief Judge, exercised personal jurisdiction over partner, declined to dismiss for forum non conveniens, issued a preliminary injunction, 2021 WL 2144915, held partner in contempt, 2021 WL 3561183, and ordered contempt sanctions, 2022 WL 2080864. Partner appealed.

Holdings: The Court of Appeals, Wilkinson, Circuit Judge, held that:

[1] North Carolina's long-arm statute was satisfied;

[2] exercising specific jurisdiction pursuant to long-arm statute comported with due process;

[3] Dutch courts did not provide an adequate alternative forum;

[4] company had a likelihood of success as would support a preliminary injunction;

[5] district court acted within its discretion in fashioning narrow preliminary injunction independently of outcome of ongoing Dutch lawsuit;

[6] partner was in civil contempt of preliminary injunction; but

[7] district court did not sufficiently specify basis for amount of contempt sanctions.

Affirmed in part and vacated and remanded in part.

West Headnotes (54)

[1] **Federal Courts**Presumptions and burden of proof

Once the defendant contests personal jurisdiction via a motion to dismiss, the plaintiff bears the burden of demonstrating personal jurisdiction at every stage. Fed. R. Civ. P. 12(b)(2).

[2] **Federal Courts**Personal jurisdiction

Court of Appeals reviews a denial of a motion to dismiss for lack of personal jurisdiction de novo, although the district court's factual findings are reviewed for clear error. Fed. R. Civ. P. 12(b)(2).

1 Case that cites this headnote

[3] **Constitutional Law**Business, business organizations, and corporations in general
Federal Courts Corporations and business organizations

Federal Courts Personal jurisdiction

A court may exercise personal jurisdiction over a foreign corporation only if: (1) such jurisdiction is authorized by the long-arm statute of the state in which the district court sits, and (2) application of the relevant long-arm statute is consistent with the Due Process Clause of the Fourteenth Amendment. U.S. Const. Amend. 14.

[4] **Courts**Commercial Contacts and Activities; Contracts and Transactions

To apply North Carolina's long-arm statute relating to solicitation of services within North Carolina, a plaintiff must establish: (1) an action claiming injury to a North Carolina person or property; (2) that the alleged injury arose from activities by the defendant outside of North Carolina; and (3) that the defendant was engaging in solicitation or services within North Carolina at or about the time of the injury. N.C. Gen. Stat. Ann. § 1-75.4(4)(a).

[5] **Copyrights and Intellectual Property**Extraterritorial jurisdiction
Federal Courts Manufacture, Distribution, and Sale of Products
Federal Courts Trade secrets and intellectual property
TrademarksPersonal jurisdiction in general

North Carolina's long-arm statute was satisfied, as needed for specific personal jurisdiction over software company's Dutch partner in company's action alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference, where company claimed that it was injured from acts abroad by partner's misuse of company's proprietary information, that injury was felt at home due to confusion among company's American customers, in part from partner's virtually identical websites, that company sustained injury while providing services on behalf of partner essential to their work together, and that company actually performed services in North Carolina that were authorized or ratified by partner including fielding sales leads, overseeing source code repository, and technical support. N.C. Gen. Stat. Ann. §§ 1-75.4(4)(a), 1-75.4(5)(b).

[6] **Constitutional Law**Non-residents in general

In determining whether a nonresident defendant's contacts with a state establish specific personal jurisdiction, consistent with due process clause, a court considers (1) extent to which the defendant purposefully availed itself of the privilege of conducting activities in the state; (2) whether the plaintiffs' claims arise out of those activities directed at the state; and (3) whether the exercise of personal jurisdiction would be constitutionally reasonable. U.S. Const. Amend. 14.

[7] **Constitutional Law**Business, business organizations, and corporations in general

Purposeful-availment prong of test for due process minimum contacts for specific personal jurisdiction is not susceptible to mechanical application and requires consideration of nonexclusive factors including: (1) whether defendant maintained offices or agents in state; (2) whether defendant maintained property in state; (3) whether defendant reached into state to solicit or initiate business; (4) whether defendant deliberately engaged in significant or long-term business activities in state; (5) whether choice of law clause selects law of state; (6) whether defendant made in-person contact with a state resident regarding business relationship; (7) whether relevant contracts required performance of duties in state; and (8) nature, quality, and extent of parties' communications about business being transacted. U.S. Const. Amend. 14.

[8] **Constitutional Law**Manufacture, distribution, and sale
Copyrights and Intellectual Property Extraterritorial jurisdiction
Federal Courts Manufacture, Distribution, and Sale of Products
Federal Courts Trade secrets and intellectual property
TrademarksPersonal jurisdiction in general

Software company's Dutch partner purposefully availed itself of privilege of conducting business in North Carolina, as a factor for due process minimum contacts for specific personal jurisdiction in company's action alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference, where partner's co-founder reached into North Carolina to initiate business with company, that contact formed basis for parties' business relationship, partner engaged in significant, long-term business activities in North Carolina by entering a contract of cooperation with company regarding sale of company's software in Europe and Africa, agreement required performance of duties in North Carolina, and nature of agreement necessitated partner's continuous interaction with company in North Carolina. U.S. Const. Amend. 14.

[9] **Constitutional Law**Business, business organizations, and corporations in general

A foreign defendant has purposefully availed itself of the privilege of conducting business in the forum state, as a factor for due process minimum contacts for specific personal jurisdiction, when the defendant substantially collaborated with a forum resident and that joint enterprise constituted an integral element of the dispute. U.S. Const. Amend. 14.

[10] **Constitutional Law**Non-residents in general

Special importance is placed on fact that a nonresident defendant initiated contact with plaintiff in forum state, as part of analysis of the purposeful-availment prong of test for due process minimum contacts for specific personal jurisdiction. U.S. Const. Amend. 14.

[11] **Constitutional Law**Non-residents in general

For purposes of test for due process minimum contacts for specific personal jurisdiction, collaboration between the parties exists, as a factor for determining whether the plaintiff's claims arose out of a nonresident defendant's activities directed at forum state, when there is an integrated relationship in which the parties work jointly on an activity, especially to produce or create something, as opposed to isolated interaction. U.S. Const. Amend. 14.

[12] **Constitutional Law**Manufacture, distribution, and sale
Copyrights and Intellectual Property Extraterritorial jurisdiction
Federal Courts Manufacture, Distribution, and Sale of Products
Federal Courts Trade secrets and intellectual property
TrademarksPersonal jurisdiction in general

Software company's claims arose from its Dutch partner's activities directed at North Carolina, as a factor for due process minimum contacts for specific personal jurisdiction in company's action alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference, where partner allegedly misused company's trademarks that had a developed a reputation within North

Carolina and allegedly misappropriated copyrighted material and trade secrets, which stemmed from the shared software jointly developed by company and partner, and partner's use of the trademark grew out of its collaboration with company as company's software sales licensee, which was necessary to partner's operations over several years. U.S. Const. Amend. 14.

[13] **Constitutional Law**🔑Business, business organizations, and corporations in general

In determining constitutional reasonableness, under due process clause, for exercising specific personal jurisdiction over a nonresident defendant, a court may consider additional factors to ensure the appropriateness of the forum once it has determined that the defendant has purposefully availed itself of the privilege of doing business there. U.S. Const. Amend. 14.

[14] **Constitutional Law**🔑Non-residents in general

Inquiry into constitutional reasonableness, under due process clause, for exercising specific personal jurisdiction over a nonresident defendant makes sure that litigation is not so gravely difficult and inconvenient as to place the defendant at a severe disadvantage in comparison to the plaintiff. U.S. Const. Amend. 14.

[15] **Constitutional Law**🔑Business, business organizations, and corporations in general

A corporate defendant's domicile abroad, standing alone, does not render domestic exercise of specific personal jurisdiction over the defendant unduly burdensome under the due process clause. U.S. Const. Amend. 14.

[16] **Constitutional Law**🔑Manufacture, distribution, and sale
Copyrights and Intellectual Property🔑Extraterritorial jurisdiction
Federal Courts🔑Manufacture, Distribution, and Sale of Products
Federal Courts🔑Trade secrets and intellectual property
Trademarks🔑Personal jurisdiction in general

Assertion of specific personal jurisdiction over software company's Dutch partner, which also was company's software sales licensee, was constitutionally reasonable under due process clause, in company's action alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference, where partner entered into a business relationship with a company that was based in North Carolina and incorporated in Delaware, making it foreseeable that partner would be called into United States court, partner offered company's founder the option of becoming its majority shareholder, both North Carolina and company had strong interests in protecting intellectual property rights, and company's interest was especially strong since its primary product was email security with a brand built on trust. U.S. Const. Amend. 14.

[17] **Federal Courts**🔑Forum non conveniens

Court of Appeals reviews a district court's decision on forum non conveniens for abuse of discretion.

[18] **Federal Courts**🔑Discretion in general

Forum non conveniens determination is committed to the sound discretion of the trial court.

[19] **Federal Courts**Forum non conveniens

Absent a clear abuse of discretion, a district court's decision on forum non conveniens deserves substantial deference on appeal.

[20] **Federal Courts**Availability and adequacy

Availability of alternative forum, as required for dismissal based on forum non conveniens, will ordinarily be satisfied when the defendant is amenable to process in the other jurisdiction.

[21] **Federal Courts**Availability and adequacy

Alternative foreign forum is adequate, as required for dismissal based on forum non conveniens, when all parties can come within that forum's jurisdiction and the parties will not be deprived of all remedies or treated unfairly, even though they may not enjoy the same benefits as they might receive in an American court.

[22] **Federal Courts**Availability and adequacy

Where the remedy offered by the alternative forum is clearly unsatisfactory, the other forum may not be an adequate alternative under forum non conveniens analysis.

[23] **Federal Courts**Availability and adequacy

Dutch courts did not provide an adequate alternative forum, and thus dismissal based on forum non conveniens was not warranted in action that software company brought action against its Dutch partner, which also was its software sales licensee, alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference, where Dutch courts could not adjudicate trademark infringement claims arising under United States law, Dutch courts could only offer empty remedies that American courts were not bound to recognize, and Dutch courts had abstained from addressing company's intellectual property claims that were asserted in its North Carolina action. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b); 17 U.S.C.A. § 501(a); 18 U.S.C.A. § 1836(b)(1).

[24] **Trademarks**What law governs
TrademarksNature, Extent, and Disposition of Rights

Concept of territoriality is basic to trademark law, meaning that trademark rights exist in each country solely according to that country's statutory scheme.

[25] **Federal Courts**Preliminary injunction; temporary restraining order

Court of Appeals reviews a district court's preliminary injunction decision for abuse of discretion.

1 Case that cites this headnote

[26] **Federal Courts**Preliminary injunction; temporary restraining order

In determining whether a district court's preliminary injunction decision was an abuse of discretion, the Court of Appeals reviews the district court's factual findings for clear error and reviews its legal conclusions de novo.

1 Case that cites this headnote

[27] **Injunction**Grounds in general; multiple factors

A preliminary injunction is warranted where the plaintiff has established that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.

1 Case that cites this headnote

[28] **Antitrust and Trade Regulation**Actions
Copyrights and Intellectual Property Extraterritorial jurisdiction
InjunctionDisclosure or use of trade secrets or confidential information
InjunctionInterference with contractual or business relations
TortsWhat law governs
TrademarksWhat law governs

District court did not impermissibly apply United States and North Carolina law extraterritorially, running afoul of presumption against extraterritoriality, when court granted preliminary injunction to North Carolina software company in its action alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference by its Dutch partner that had a license to sell company's software in Europe and Africa; relevant laws all concerned partner's conduct, which notably touched American customers in the email-security marketplace. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b); 17 U.S.C.A. §§ 410(c), 501(a); 18 U.S.C.A. § 1836(b)(1).

[29] **Copyrights and Intellectual Property**Extraterritorial jurisdiction
InjunctionDisclosure or use of trade secrets or confidential information
InjunctionInterference with contractual or business relations
TrademarksInfringement in general

Ongoing Dutch lawsuit concerning corporate governance dispute involving software company's Dutch partner did not preclude grant of preliminary injunction to company in its action alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference by partner, which also had a license to sell company's software in Europe and Africa, where no conceivable construction of partner's license would have authorized its actions on a global scale in the email-security marketplace. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b); 17 U.S.C.A. § 501(a); 18 U.S.C.A. § 1836(b)(1).

[30] **Copyrights and Intellectual Property**Nature and Elements in General

To establish copyright infringement, a plaintiff must prove (1) ownership of a valid copyright, and (2) copying of constituent elements of his work that are original. 17 U.S.C.A. § 501(a).

[31] **Copyrights and Intellectual Property**Copyright Protection in General

Because the Copyright Act has limited

application abroad, a plaintiff must also show a domestic violation. 17 U.S.C.A. § 501(a).

[32] **Copyrights and Intellectual Property**🔑Preliminary or temporary relief

Software company had a likelihood of success on its copyright infringement claim against its Dutch partner, which had a license to sell company's software in Europe and Africa, as would support the grant of preliminary injunction to company, where company had a registered copyright of its nine-year-old source code, and there was evidence that partner reproduced elements of copyrighted source code outside parameters of the parties' licensing agreement and that partner was servicing American customers who merely had offices and operations in Europe and elsewhere, by using, copying, selling, and distributing company's copyrighted source code without authorization. 17 U.S.C.A. § 501(a).

[33] **Copyrights and Intellectual Property**🔑Copyright Protection in General

A defendant who directs infringing material into the United States from abroad commits a domestic violation of the Copyright Act. 17 U.S.C.A. § 410(c).

[34] **Trademarks**🔑Infringement

A trademark infringement claim requires establishing both (1) a valid mark and (2) likelihood of confusion due to another mark in the marketplace. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[35] **Trademarks**🔑Similarity; likelihood of confusion

Software company had a likelihood of success on its trademark infringement claim against its Dutch partner, which had a license to sell company's software in Europe and Africa, as would support the grant of preliminary injunction to company, where company held a valid registered trademark, parties shared similar domain names, parties had virtually identical website designs, parties shared essentially the same business services in the email-security marketplace, and consumers had contacted parties or posted on internet after becoming confused about relationship between company and partner. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[36] **Trademarks**🔑Actual confusion

Lodestar for a trademark infringement claim is likelihood of confusion, not actual confusion, due to another mark in the marketplace. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[37] **Trademarks**🔑Territorial limits

Factors for rebutting presumption against extraterritorial application of Lanham Act for an injunction are whether (1) defendant's extraterritorial conduct had a significant effect on United States commerce; (2) defendant was a citizen of United States; and (3) an injunction would not interfere with the sovereignty of the nation within whose borders the extraterritorial conduct was to be prohibited. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[38] **Trademarks**Scope and extent of relief

Presumption against extraterritorial application of Lanham Act for an injunction was rebutted to allow grant of preliminary injunction to software company on its trademark infringement claim against its Dutch partner, which had a license to sell company's software in Europe and Africa, where partner's websites, which were nearly identical company's websites in the email-security marketplace, provided an option for "the Americas," at least one American company had switched to partner's platform, and partner had messaged American customers about a purported data breach. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[39] **Antitrust and Trade Regulation**Elements of misappropriation

To prevail on a misappropriation claim under the Defend Trade Secrets Act (DTSA), a plaintiff must establish (1) the existence of a trade secret, (2) the trade secret's misappropriation, and (3) that the trade secret implicates interstate or foreign commerce. 18 U.S.C.A. § 1836(b)(1).

2 Cases that cite this headnote

[40] **Injunction**Disclosure or use of trade secrets or confidential information

Software company had a likelihood of success on its misappropriation claim under Defend Trade Secrets Act (DTSA) against its Dutch partner, which had a license to sell company's software in Europe and Africa, as would support the grant of preliminary injunction to company, where company's source code, customer database, and business accounts for its business in email security marketplace were all likely trade secrets, company took steps to keep such information secret through security measures, the relevant information held economic value by not being generally known, and there was little question that partner deployed trade secrets in foreign commerce. 18 U.S.C.A. §§ 1836(b)(1), 1839(3).

2 Cases that cite this headnote

[41] **Injunction**Disclosure or use of trade secrets or confidential information

A sufficient domestic nexus was shown to grant a preliminary injunction to software company on its Defend Trade Secrets Act (DTSA) claim against its Dutch partner, which had a license to sell company's software in Europe and Africa, where partner originally gained access to company's trade secrets for its business in email security marketplace through data stored on servers within United States, and partner likely facilitated the trade secrets' use or disclosure within the United States. 18 U.S.C.A. §§ 1836(b)(1), 1837(2).

[42] **Torts**Contracts

Under North Carolina law, a claim for tortious interference with contract requires demonstrating (1) a valid contract between the plaintiff and a third person; (2) the defendant's knowledge of the contract; (3) that the defendant intentionally induced the third person not to perform the contract; (4) that the defendant acted without justification; and (5) that the plaintiff suffered actual damage.

[43] **Torts**Prospective advantage, contract or relations; expectancy

Under North Carolina law, a claim for tortious interference with prospective economic advantage requires showing a defendant maliciously induced a person not to enter into a contract with the plaintiff, which he would have entered into but for the interference, if damage proximately ensues, when this interference is done not in the legitimate exercise of the defendant's rights.

[44] **Injunction**Interference with contractual or business relations

Software company had a likelihood of success on its claim of tortious interference with contract under North Carolina law against its Dutch partner, which had a license to sell company's software in Europe and Africa, as would support the grant of preliminary injunction to company, where there was evidence that partner lured one of company's United States customers in the email-security marketplace away from company over to partner.

[45] **Injunction**Interference with contractual or business relations

Software company had a likelihood of success on its claim of tortious interference with prospective economic advantage under North Carolina law against its Dutch partner, which had a license to sell company's software in Europe and Africa, as would support the grant of preliminary injunction to company, where company's website was a prolific acquisition channel, allegedly generating hundreds of new customers each month in the email-security marketplace, and partner had "misleadingly similar" websites.

[46] **Contracts**Application to Contracts in General
ContractsReasonableness of construction

Common sense is as much a part of contract interpretation as is the dictionary or the arsenal of canons.

[47] **Copyrights and Intellectual Property**Extraterritorial jurisdiction
InjunctionDisclosure or use of trade secrets or confidential information
InjunctionInterference with contractual or business relations
TrademarksScope and extent of relief

District court acted within its discretion in fashioning a narrow preliminary injunction, in favor of software company, independently of outcome of ongoing Dutch lawsuit seeking clarification of status of an agreement authorizing its Dutch partner to sell company's software in Europe and Africa, in company's action against partner alleging copyright and trademark infringement, misappropriation of trade secrets, and tortious interference, where Dutch courts were limited in ability to enforce violations of American trademarks, and had district court failed to act in the face of the facts, company's entire store of intellectual property rights, the company's very core, would have been left defenseless against what the district court not unreasonably perceived to be a continuing piracy. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b); 17 U.S.C.A. § 501(a); 18 U.S.C.A. § 1836(b)(1).

[48] **Contempt**Review

Court of Appeals reviews a district court's civil contempt order for abuse of discretion.

1 Case that cites this headnote

[49] **Contempt**Review

When a civil contempt order is based on a district court's preliminary injunction, the Court of Appeals' review is even more deferential because district courts are in the best position to interpret their own orders.

[50] **Contempt**Disobedience to Mandate, Order, or Judgment
ContemptWeight and sufficiency

To establish civil contempt, the moving party must show by clear and convincing evidence (1) the existence of a valid decree of which the alleged contemnor had actual or constructive knowledge; (2) that the decree was in the movant's favor; (3) that the alleged contemnor by its conduct violated the terms of the decree, and had knowledge (at least constructive knowledge) of such violations; and (4) that the movant suffered harm as a result.

2 Cases that cite this headnote

[51] **Trademarks**Acts constituting violation

District court acted within its discretion in holding software company's Dutch partner in civil contempt of preliminary injunction obtained by company on its trademark infringement claim, where partner had knowledge of injunctive decree against it from court's order, the decree benefited company by seeking to prevent partner's misuse of company's intellectual property, partner knowingly violated decree by failing to make required disclaimers when utilizing company's trademark, and company suffered the presumptive harm of consumer confusion. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[52] **Contempt**Nature and grounds in general

A civil contempt sanction must serve either to (1) coerce obedience to a court order, or (2) compensate the complainant for losses sustained as a result of the contumacy.

1 Case that cites this headnote

[53] **Trademarks**Proceedings

A $5,000 per day sanction, totaling $335,000 for 67 days of violative conduct, for civil contempt of preliminary injunction that software company obtained against its Dutch partner on a trademark infringement claim could only be justified as compensatory, and therefore district court needed to sufficiently specify how its $5,000-per-day formula approximated losses incurred to company, where the $5,000-per-day sanction only pertained to competitor's previous conduct and hence did not coerce any compliance, and court only generally alluded to the parties' total "volume of business" in explaining the formula. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

[54] **Trademarks**Punishment

While measuring the harm from trademark confusion can be a difficult enterprise, it remains the district court's responsibility to ensure the sanction amount for contempt of a preliminary injunction in a trademark infringement action is tailored to compensate the complaining party; otherwise, the line between civil and criminal contempt, or the boundary from compensation to punishment, is blurred. Lanham Trade-Mark Act § 7, 15 U.S.C.A. § 1057(b).

***127** Appeals from United States District Court for the Western District of North Carolina at Asheville. Martin K. Reidinger, Chief District Judge. (1:21−cv−00067−MR)

Attorneys and Law Firms

ARGUED: Samuel B. Hartzell, WOMBLE BOND DICKINSON (US) LLP, Raleigh, North Carolina, for Appellant. Pamela Suzanne Duffy, ELLIS & WINTERS, LLP, Greensboro, North Carolina; David Anthony Dorey, BLANK ROME LLP, Wilmington, Delaware, for Appellee. ON BRIEF: Pressly M. Millen, WOMBLE BOND DICKINSON (US) LLP, Raleigh, North Carolina, for Appellant.

Before WILKINSON and HEYTENS, Circuit Judges, and Henry E. HUDSON, Senior United States District Judge for the Eastern District of Virginia, sitting by designation.

Opinion

Affirmed in part and vacated and remanded in part by published opinion. Judge Wilkinson wrote the opinion, in which Judge Heytens and Senior District Judge Hudson joined.

WILKINSON, Circuit Judge:

***128** This is a case of two software companies—dmarcian, Inc. (dInc) and dmarcian Europe BV (dBV)—and a broken business relationship. The original dmarcian, dInc, is a Delaware corporation with headquarters in North Carolina. Its corporate homonym, dBV, is a Dutch entity based in the Netherlands. In 2016, the two companies negotiated an agreement authorizing dBV to sell dInc's software in Europe and Africa. The license was done on a handshake, and the parties now dispute its terms.

After an initially fruitful partnership, disagreements arose in 2019, ultimately prompting two suits by dBV in the Netherlands and the present suit by dInc in the United States. Among other allegations, dInc accuses dBV of directly competing for customers, which prompted dInc to bring claims of copyright and trademark infringement, misappropriation of trade secrets, and tortious interference. The district court exercised personal jurisdiction over dBV and declined to dismiss for *forum non conveniens.* The district court also issued a preliminary injunction limiting dBV's use of dInc's intellectual property. The district court later held dBV in contempt for violating the injunction, and dBV now appeals.

For the reasons set forth herein, we affirm except as to one aspect of the contempt order, which we vacate and remand for further proceedings as to the proper amount of sanctions.

I.

A.

dmarcian, Inc. was founded in 2014 by Tim Draegen, a North Carolina resident, to commercialize software that he developed two years earlier. His software, branded as "dmarcian," helps users authenticate incoming emails through the Domain-based Message Authentication Reporting and Conformance (DMARC) protocol. Users can thus guard themselves against malicious senders masquerading as legitimate businesses or individuals in so-called "phishing" attacks. dInc formally registered "dmarcian" as a trademark in 2019 and copyrighted its source code in 2021. dInc has asserted its source code, customer lists, sales leads, and general market intelligence as trade secrets.

Draegen initially promoted his software through a website: dmarcian.com. His efforts caught the eye of Martijn Groeneweg, a Dutch businessman and co-founder of Mailmerk BV—which would later become dmarcian Europe BV. Groeneweg contacted Draegen in 2013 to propose helping market dmarcian in Europe. Although Draegen and Groeneweg did not reach an agreement, they kept in touch.

In mid-2014, Groeneweg informed Draegen that he had registered the web domains, dmarcian.eu and dmarcian.nl, and programmed them to route traffic to dmarcian.com. Their discussions continued for more than a year, until Draegen ultimately travelled to the Netherlands in January 2016 and met with Groeneweg in person. At that time, the two orally negotiated an agreement between dInc and Mailmerk.

Per the 2016 agreement, which was never reduced to writing, Mailmerk was to rebrand as dmarcian Europe BV (dBV), which it did in 2017. Draegen was also given the option to purchase a 50.01% stake in dBV for €1, which he exercised in 2018. In return, dBV received a license to sell dmarcian software in Europe and Africa.

***129** Following the agreement, dInc directed certain sales leads in Europe and Africa to dBV. dInc also provided dBV employees and customers with operational assistance and technical support, in addition to housing, developing, and maintaining the dmarcian source code from its North Carolina office. dInc shared the source code, meanwhile, with dBV engineers in Bulgaria and the Netherlands who made software improvements. dBV engineers also redesigned dInc's website, dmarcian.com, and made Dutch, French, and Spanish versions linking to dmarcian.com. dInc alleges that its website typically attracted hundreds of new customers each month.

Throughout the partnership, dBV and dInc personnel corresponded regularly. The two companies' employees took part in multiple meetings and virtual training sessions hosted by dInc's representatives in North Carolina. Additionally, Draegen traveled at least once each year to meet dBV personnel in Europe, sometimes bringing other dInc employees along with him. Groeneweg, for his part, travelled once to North Carolina in January 2019 to meet with dInc employees.

Tensions arose in late 2019 when dBV asserted ownership of parts of the dmarcian code that had been written by dBV's developers. dInc voiced disagreement, and initial talks between the companies failed to make headway. At one point, dInc briefly cut off dBV's access to dInc's computer systems. In July 2020, Draegen, as dBV's majority owner, called a shareholders' meeting to resolve the ongoing dispute. In response, dBV's minority shareholder—an entity controlled by Groeneweg—filed suit in the Enterprise Court of the Appellate Court of Amsterdam in the Netherlands (Enterprise Chamber), a Dutch court specialized in Dutch corporate governance disputes. In September 2020, the Enterprise Chamber seized control of dBV and ordered an investigation into its management and affairs. The Chamber named a Dutch attorney as dBV's managing director pending the resolution of the investigation.

Following the Chamber's ruling, dInc again briefly suspended dBV's access to dInc's computer systems. After several months, with the companies still at an impasse in negotiations, dInc announced in January 2021 that it would terminate dBV's license the following month. In response, dBV filed for injunctive relief in Rotterdam Court, prompting a hearing two days later. After dInc representatives failed to appear at the hearing, the Rotterdam Court granted the injunction, ordering dInc to restore dBV's access to its servers and maintain dBV's license while the Chamber investigation proceeded.

After the injunction, dInc alleges that dBV continued selling the dmarcian software while restricting dInc's access to certain customers. According to dInc, dBV set up multiple websites with dInc's logo (only adding the word "EUROPE"), the likenesses of dInc employees, and the identities of dInc customers. dBV's websites were "virtually identical" to dInc's website, except for providing dBV's contact information. *dmarcian, Inc. v. dmarcian Eur. BV* (*dmarcian II*), No. 1:21-CV-00067-MR, 2021 WL 2144915, at *5 (W.D.N.C. May 26, 2021). Draegen testified that a link on dBV's website for "the Americas" routed users to the dBV platform. dBV says it only created these websites because dInc had terminated its access to dInc's computer systems.

Additionally, dInc accuses dBV of reporting a "data breach" to authorities and customers as a ruse to lure dInc's business to dBV's "safe new platform." *Id.* dInc alleges that at least one company based in the United States, Clarizen, consequently switched from dInc to dBV. dBV counters that it was obligated to report a data ***130** breach because dInc had terminated dBV's access to customer data.

From this point forward, dBV allegedly operated bootlegged versions of dInc's website and encroached on dInc's sales territory with dBV's own platform, derived from dInc's intellectual property. In short, dInc and dBV had gone from partners to competitors. These actions prompted the current lawsuit.

B.

On March 12, 2021, dInc filed suit against dBV in the Western District of North Carolina. Two weeks later, dInc filed a motion for a temporary restraining order and a preliminary injunction. The district court denied dInc's motion for a temporary restraining order but reserved ruling on the preliminary injunction "pending further presentation of evidence and briefing by the parties." *dmarcian, Inc. v. dmarcian Eur. BV* (*dmarcian I*), No. 1:21-CV-00067-MR, 2021 WL 1225876, at *4 (W.D.N.C. Mar. 31, 2021).

In April, dInc amended its complaint, claiming breach of contract, copyright infringement under 17 U.S.C. § 101 (Copyright Act), trademark infringement under 15 U.S.C.

§ 1051 *et seq.* (Lanham Act), defamation, misappropriation of trade secrets under North Carolina General Statute § 66-152 *et seq.* (North Carolina Trade Secrets Protection Act) and under 18 U.S.C. §§ 1836(b), 1839 *et seq.* (Defend Trade Secrets Act), computer trespass, tortious interference, common law trademark infringement, unjust enrichment, and unfair or deceptive business practices. In response, dBV filed a motion to dismiss for lack of personal jurisdiction and *forum non conveniens.*

The district court denied dBV's motion to dismiss and entered a preliminary injunction against it. For the injunction, the district court only addressed dInc's copyright, trademark, trade secrets, and tortious interference claims, which formed the basis of dInc's requested interim relief. The district court found that dInc was likely to succeed on the merits of its claims.

The court fashioned a preliminary injunction prohibiting dBV from carrying out its activities beyond Europe and Africa, taking certain steps to compete directly with dInc, making alterations to the dmarcian software, and using the "dmarcian" trademark without a disclaimer. On this last point, the injunction specified that dBV could not use dInc's trademark "in any manner" unless such use were accompanied by the following disclaimer:

> This trademark is the trademark of dmarcian, Inc. This website is produced and generated and posted by dmarcian Europe BV, which is a different entity from dmarcian, Inc. This trademark is being used at this location without the permission of dmarcian, Inc. and only pursuant to the terms of a court order allowing its temporary use during litigation between dmarcian, Inc. and dmarcian Europe BV.

dmarcian II, 2021 WL 2144915, at *27. For websites using the "dmarcian" name, the injunction also required dBV to place the following disclaimer atop each webpage:

> The dmarcian software was originally developed by dmarcian, Inc. This is not the website of dmarcian, Inc. The website of dmarcian, Inc. can be found at https://dmarcian.com.

Id.

One month later, dInc moved to hold dBV in contempt for violating the preliminary injunction. dBV then moved to stay or modify the injunction. In an August order, the district court found dBV in contempt and partly amended the injunction, ***131** while denying dBV's motion to stay. *dmarcian, Inc. v. dmarcian Eur. BV* (*dmarcian III*), No. 1:21-CV-00067-MR, 2021 WL 3561182, at *7 (W.D.N.C. Aug. 11, 2021). Per its finding of contempt, the district court ordered dBV to pay $5,000 "for each day after the entry of the Preliminary Injunction" that dBV used any "website featuring the 'dmarcian' domain name" without the required disclaimer. *dmarcian, Inc. v. dmarcian Eur. BV* (*dmarcian IV*), No. 1:21-CV-00067-MR, 2021 WL 3561183, at *9 (W.D.N.C. Aug. 11, 2021). The total sanction came out to $335,000 after the court found that dBV had violated the preliminary injunction for 67 days.

dBV timely appealed three of the district court's orders—one in May granting the preliminary injunction, and two in August amending the preliminary injunction and holding dBV in contempt. We consolidated these three appeals into the current case.

In all, dBV now raises four issues. First, dBV asserts that dInc failed to establish that the district court had personal jurisdiction over dBV. Second, dBV challenges the district court's decision not to dismiss the case based on *forum non conveniens.* Third, dBV urges us to reverse the preliminary injunction, arguing that dInc is unlikely to succeed on its copyright, trademark, trade secrets, and tortious interference claims. Last, dBV asks that we vacate the civil contempt order.

II.

[1] [2]We address "as a preliminary matter" whether the district court lacked personal jurisdiction over dBV. *Grayson v. Anderson*, 816 F.3d 262, 267 (4th Cir. 2016). Once the defendant contests personal jurisdiction under Federal Rule of Civil Procedure 12(b)(2), "the plaintiff bears the burden of demonstrating personal jurisdiction at every stage." *Id.* The district court found that dInc met its burden and accordingly denied dBV's motion to dismiss for lack of personal jurisdiction. We review this ruling de novo, *Eshelman v. Puma Biotechnology, Inc.*, 2 F.4th 276, 280 (4th Cir. 2021), "though the court's factual findings are reviewed for clear error," *Tire Eng'g & Distribution, LLC v. Shandong Linglong Rubber Co.*, 682 F.3d 292, 300 (4th Cir. 2012).

[3]A court "may exercise personal jurisdiction over a foreign corporation only if: (1) such jurisdiction is authorized by the long-arm statute of the state in which the district court sits; and (2) application of the relevant long-arm statute is consistent with the Due Process Clause of the Fourteenth Amendment." *Universal Leather, LLC v. Koro AR, S.A.*, 773 F.3d 553, 558 (4th Cir. 2014). Because dInc brought this case in the Western District of North Carolina, we first consider the applicability of North Carolina's long-arm statute before determining

whether that application comports with due process.

A.

[4]The district court found two sections of the North Carolina long-arm statute—North Carolina General Statute Sections 1-75.4(4)(a) and (5)(b)—authorize personal jurisdiction over dBV. Under Section 1-75.4(4)(a), courts have jurisdiction "in any action claiming injury to person or property within [North Carolina] arising out of an act or omission outside this State by the defendant, provided in addition that at or about the time of the injury either [s]olicitation or services activities were carried on within this State by or on behalf of the defendant." N.C. Gen. Stat. § 1-75.4(4)(a). For Section 1-75.4(4)(a) to apply, "a plaintiff must establish: 1) an action claiming injury to a North Carolina person or property; 2) that the alleged ***132** injury arose from activities by the defendant outside of North Carolina; and 3) that the defendant was engaging in solicitation or services within North Carolina at or about the time of the injury." *Speedway Motorsports Int'l Ltd. v. Bronwen Energy Trading, Ltd.*, 209 N.C.App. 474, 707 S.E.2d 385, 394 (2011) (internal quotation marks omitted).

Similarly, Section 1-75.4(5)(b) states that courts shall have jurisdiction in any action which "[a]rises out of ... services actually performed for the defendant by the plaintiff within [North Carolina] if such performance within this State was authorized or ratified by the defendant." N.C. Gen. Stat. § 1-75.4(5)(b). We interpret these provisions with an eye toward the "clear mandate that the North Carolina long-arm statute be given a liberal construction." *Vishay Intertechnology, Inc. v. Delta Int'l Corp.*, 696 F.2d 1062, 1065 (4th Cir. 1982).

[5]The district court was correct to find the relevant provisions of North Carolina's long-arm statute satisfied here. Pertinent to Section 1-75.4(4)(a), dInc is a North Carolina business claiming injury from acts abroad by dBV at the time dInc provided services on behalf of dBV. Specifically, dInc alleged that dBV misused dInc's proprietary information, which constitutes an injury under Section 1-75.4(4)(a). *Fran's Pecans, Inc. v. Greene*, 134 N.C.App. 110, 516 S.E.2d 647, 650 (1999). Further, dInc claimed that the injury was felt at home due to confusion among its American customers, in part from dBV's "virtually identical" websites. *dmarcian II*, 2021 WL 2144915, at *18.

Last, dInc alleged that it sustained this injury while providing services "on behalf" of dBV essential to their work together. *See Inspirational Network, Inc. v. Combs*, 131 N.C.App. 231, 506 S.E.2d 754, 759 (1998) (explaining that performing contractual services for defendant in North Carolina "*prima facie* satisfie[s] the requirements of [ ] § 1-75.4(4)(a)"). North Carolina courts define "services activities" in Section 1-75.4(4)(a) to include visits or calls by a business representative in North Carolina. *See, e.g., Carson v. Brodin*, 160 N.C.App. 366, 585 S.E.2d 491, 495–96 (2003); *Vision Motor Cars, Inc. v. Valor Motor Co.*, 981 F. Supp. 2d 464, 472 (M.D.N.C. 2013) (collecting cases). On top of Groeneweg's visit to North Carolina in 2019, dInc alleged visits and calls occurred regularly in the form of virtual meetings attended by dBV employees. dInc's claims thus satisfy Section 1-75.4(4)(a).

That's not all. Pertinent to Section 1-75.4(5)(b), dInc "actually performed" services in North Carolina that were "authorized or ratified by" dBV. These services included fielding sales leads in North Carolina and routing certain ones to dBV if they fell within dBV's territory, overseeing the source code repository for both dInc and dBV, and providing dBV with operational assistance, technical support, platform maintenance, and customer support. *dmarcian II*, 2021 WL 2144915, at *6.

These services were ostensibly performed pursuant to the contract of cooperation between the parties, which dInc maintains required joint use of the software and a mutual division of sales in certain regions. dBV accepted these services, as they were essential to the daily operation of dBV's business. *See US Chem. Storage, LLC v. Berto Constr., Inc.*, 253 N.C.App. 378, 800 S.E.2d 716, 719 (2017) (finding Section 1-75.4(5)(b) satisfied when services were "actually performed" pursuant to business agreement). These services were thus "authorized or ratified" by dBV. dInc's alleged injury, moreover, arose out of the provision of these services. Indeed, dBV only had access to dInc's intellectual property because dInc provided it, along with accompanying services for dBV to ***133** market dInc's software overseas up until their business relationship broke down due to dBV's alleged misconduct.

Jurisdiction is thus authorized by Sections 1-75.4(4)(a) and (5)(b) of the North Carolina long-arm statute.

B.

[6]We next consider whether the "application of the relevant long-arm statute is consistent with the Due Process Clause of the Fourteenth Amendment." *Universal*

Leather, 773 F.3d at 558. For a court to assert specific personal jurisdiction, we have synthesized the due process requirements "into a three-prong test: (1) the extent to which the defendant purposefully availed itself of the privilege of conducting activities in the State; (2) whether the plaintiffs' claims arise out of those activities directed at the State; and (3) whether the exercise of personal jurisdiction would be constitutionally reasonable." *UMG Recordings, Inc. v. Kurbanov*, 963 F.3d 344, 352 (4th Cir. 2020) (internal quotation marks omitted). We consider each prong in turn.

1.

[7]The purposeful-availment prong "is not susceptible to a mechanical application" and requires a court to consider "a list of various nonexclusive factors." *Id.* Those factors include "(1) whether the defendant maintained offices or agents in the State; (2) whether the defendant maintained property in the State; (3) whether the defendant reached into the State to solicit or initiate business; (4) whether the defendant deliberately engaged in significant or long-term business activities in the State; (5) whether a choice of law clause selects the law of the State; (6) whether the defendant made in-person contact with a resident of the State regarding the business relationship; (7) whether the relevant contracts required performance of duties in the State; and (8) the nature, quality, and extent of the parties' communications about the business being transacted." *Id.* (quoting *Sneha Media & Entm't, LLC v. Associated Broad. Co. P. Ltd.*, 911 F.3d 192, 198–99 (4th Cir. 2018)).

[8] [9]Though dBV does not maintain offices or property in North Carolina, and the choice of law factor is unclear, the remaining factors show that dBV purposefully availed itself "of the privilege of conducting business under the laws of the forum state." *Consulting Engineers Corp. v. Geometric Ltd.*, 561 F.3d 273, 278 (4th Cir. 2009). A "foreign defendant has purposefully availed itself of the privilege of conducting business in the forum state when the defendant substantially collaborated with a forum resident and that joint enterprise constituted an integral element of the dispute." *Universal Leather*, 773 F.3d at 560 (internal quotation marks omitted). That is precisely what happened here.

[10]To start, it is undisputed that Groeneweg reached into North Carolina to initiate business with Draegen, and that this contact formed the basis for the parties' business relationship. Our court "place[s] special importance on the fact that defendant initiated contact with the plaintiff in the forum state." *Sneha Media & Entm't*, 911 F.3d at 200 (internal quotation marks omitted). dBV downplays this solicitation, arguing that dInc did not yet exist so dBV as an entity did not reach into North Carolina. But such a wooden analysis would betray the "flexible" consideration we have said is needed. *Universal Leather*, 773 F.3d at 560.

The record further demonstrates that dBV engaged in significant, long-term business activities in North Carolina by entering a contract of cooperation with ***134** dInc. The district court found that "Groeneweg[ ] visited North Carolina for a week in 2019 in his capacity as the Defendant's managing director to discuss plans for sales, marketing, deployment, and customer development." *Id.* Moreover, dBV's "employees also regularly attended monthly 'all hands' virtual meetings, and weekly 'department' virtual meetings, which were all led by [dInc's] employees in North Carolina." *Id.* This reveals in-person contact regarding the business relationship. That these interactions were over the Internet makes no difference to the purposeful availment analysis, for jurisdiction can be established when a defendant purposefully, "through electronic contacts, has conceptually 'entered' the State via the Internet for jurisdictional purposes." *ALS Scan, Inc. v. Digital Serv. Consultants, Inc.*, 293 F.3d 707, 713 (4th Cir. 2002).

Further, the agreement required the performance of duties in North Carolina. The district court found that dBV "performed under that contract for several years by paying compensation into North Carolina, acting on client referrals directed through North Carolina, and accepting operational assistance, technical help, platform maintenance, and customer support from [dInc in] North Carolina." *dmarcian II*, 2021 WL 2144915, at *9.

Finally, the nature, quality, and extent of the parties' communications reveals a robust partnership. The very nature of the agreement necessitated dBV's continuous interaction with dInc in North Carolina; even the way dBV characterizes its relationship with dInc reveals an understanding of cooperation and collaboration. The parties' business relationship relied on sharing information over the Internet between North Carolina and the Netherlands, as dBV admits it was "fully dependent" on the servers controlled by dInc for all of its "market activities" and "customer data." J.A. 596.

We have underscored that courts should consider "the *quality* and *nature* of the defendant's connections, not merely the number of contacts between the defendant and the forum state." *UMG Recordings*, 963 F.3d at 352. Here, rather than "random, fortuitous, or attenuated," the contacts were coordinated, systemic, and purposefully maintained. *Id.* at 351. In sum, dBV "purposefully reached out" by "entering a contractual relationship that envisioned continuing and wide-reaching contacts" in North Carolina. *Walden v. Fiore*, 571 U.S. 277, 285, 134 S.Ct. 1115, 188 L.Ed.2d 12 (2014) (internal quotation marks omitted). dBV thus purposefully availed itself of the protections of North Carolina law.

2.

[11]The second prong of the due process analysis contemplates whether dInc's claims arose out of activities dBV directed at North Carolina. "The analysis here is generally not complicated," if "substantial correspondence and collaboration between the parties, one of which is based in the forum state, forms an important part of the claim." *Tire Eng'g*, 682 F.3d at 303. Collaboration exists when there is "an integrated relationship" in which the parties "work jointly on an activity, especially to produce or create something," as opposed to "isolated interaction." *CFA Inst. v. Inst. of Chartered Fin. Analysts of India*, 551 F.3d 285, 295–96 (4th Cir. 2009) (internal quotation marks omitted).

[12]dInc's intellectual property claims arose from dBV's North Carolina-directed activities. dInc alleges that dBV misused trademarks that had developed a reputation within North Carolina and that dBV misappropriated copyrighted material and trade secrets, which stem from the shared ***135** software jointly developed by dInc and dBV. Indeed, dBV's use of the trademark grew out of its collaboration with dInc, which dBV concedes was necessary to its operations over several years. Here, "substantial ... collaboration between the parties," working jointly to create something, "forms an important part of [dInc's] claim[s]." *Tire Eng'g*, 682 F.3d at 303. dInc's claims thus arose out of activities dBV directed at North Carolina.

3.

[13]The third prong asks whether the assertion of personal jurisdiction over the defendant is constitutionally reasonable. This prong "permits a court to consider additional factors to ensure the appropriateness of the forum once it has determined that a defendant has purposefully availed itself of the privilege of doing business there." *Consulting Eng'rs Corp.*, 561 F.3d at 279. This final prong considers factors such as the burden on the defendant, the court's ability to conveniently and efficiently resolve the dispute, the interest of the forum state in adjudicating the dispute, the plaintiff's interest in obtaining effective relief, and the interests of the state in furthering substantive policies. *Id.*

[14] [15]The reasonableness inquiry makes sure that "litigation is not so gravely difficult and inconvenient as to place the defendant at a severe disadvantage in comparison to his opponent." *CFA Inst.*, 551 F.3d at 296 (internal quotation marks omitted). Importantly, a "corporate defendant's domicile abroad, standing alone, does not render domestic exercise of jurisdiction unduly burdensome." *Tire Eng'g*, 682 F.3d at 303.

[16]The third prong is met here for multiple reasons. First, dBV entered into a business relationship with a company based in North Carolina and incorporated in Delaware, making it foreseeable that it would be called into United States court. The "inequity of being haled into a foreign forum is mitigated if it was reasonably foreseeable that the defendant could be subject to suit there." *CFA Inst.*, 551 F.3d at 296. What's more, dBV offered Draegen the option of becoming its majority shareholder. If one reason for ensuring the foreign corporation has minimum contacts with the forum state is to prevent it from being dragged into court where it "did not anticipate being sued," *UMG Recordings*, 963 F.3d at 351, then dBV cannot argue surprise here. It was foreseeable that a dispute with dInc, its licensor, or Draegen, its majority shareholder, could end up in federal court in North Carolina.

Second, and equally important, both North Carolina and dInc have strong interests in protecting intellectual property rights. North Carolina has a "manifest interest" in offering remedies to its wronged businesses. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 473, 105 S.Ct. 2174, 85 L.Ed.2d 528 (1985). Likewise, dInc has a "substantial interest" in protecting its intellectual property after having "carved out a market niche by cultivating" anti-phishing software through considerable time and resources. *Tire Eng'g*, 682 F.3d at 303. dInc's interest is especially strong because it is a software company whose primary product is email security. dInc's brand is built on trust, so it was understandably sensitive to misuse of its trademark, design, and other branding instruments. dInc's and North Carolina's interests are, therefore, mutually reinforcing. North Carolina has a strong interest in protecting its companies' rights from foreign infringements, and North Carolina companies like dInc maintain a strong interest in relying on their home forum for vindication of their legitimate rights. The relevant factors here demonstrate ***136** that the assertion of personal jurisdiction over dBV is constitutionally reasonable.

The district court's assertion of personal jurisdiction over dBV thus abided by North Carolina's long-arm statute and comported with due process. We therefore affirm the district court on this issue.

III.

[17] [18] [19]We next consider the issue of *forum non conveniens.* dBV moved to dismiss the case based on *forum non conveniens* below, asserting that Dutch courts provide an available and adequate forum, but the district court declined to oblige. We review the district court's decision for abuse of discretion. *Galustian v. Peter*, 591 F.3d 724, 731 (4th Cir. 2010). Sitting in review, we must remember that the "*forum non conveniens* determination is committed to the sound discretion of the trial court." *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 257, 102 S.Ct. 252, 70 L.Ed.2d 419 (1981). Accordingly, absent a "clear abuse of discretion," the district court's "decision deserves substantial deference." *Id.*

[20] [21] [22] [23]The Supreme Court has established a three-part framework for *forum non conveniens* in which the moving party must show that an "alternative forum is: 1) available; 2) adequate; and 3) more convenient in light of the public and private interests involved." *Jiali Tang v. Synutra Int'l, Inc.*, 656 F.3d 242, 248 (4th Cir. 2011) (citing *Piper Aircraft*, 454 U.S. at 241, 102 S.Ct. 252). "Availability will ordinarily be satisfied when the defendant is amenable to process in the other jurisdiction." *Id.* at 249 (internal quotation marks omitted). A foreign forum is "adequate" when "all parties can come within that forum's jurisdiction" and "the parties will not be deprived of all remedies or treated unfairly, even though they may not enjoy the same benefits as they might receive in an American court." *Id.* (internal quotation marks omitted). Yet "where the remedy offered by the other forum is clearly unsatisfactory, the other forum may not be an adequate alternative." *Piper Aircraft*, 454 U.S. at 254 n.22, 102 S.Ct. 252. The district court found here that dBV failed to propose an adequate alternative forum because its proffered forum in the Netherlands could not adjudicate trademark claims arising under United States law. The district court further stated that even if the Dutch court were an adequate and available forum, the "private and public interests to be weighed in considering a *forum non conveniens* motion also weigh against" dBV. *dmarcian II*, 2021 WL 2144915, at *12. We see no abuse of discretion in this holding.

[24]The district court was correct to conclude that the Dutch court's inability to effectively adjudicate American trademark law claims disqualified it as an adequate forum. Dutch courts have at most a limited ability to adjudicate and enforce violations of American trademark law resulting in injuries to American trademark holders within the United States. "The concept of territoriality is basic to trademark law," meaning that "trademark rights exist in each country solely according to that country's statutory scheme." *Barcelona.com, Inc. v. Excelentisimo Ayuntamiento De Barcelona*, 330 F.3d 617, 628 (4th Cir. 2003) (internal quotation marks omitted). Under established trademark doctrine, therefore, Dutch courts could only offer empty remedies that American courts are not "bound to recognize." *E. Remy Martin & Co., S.A. v. Shaw-Ross Int'l Imports, Inc.*, 756 F.2d 1525, 1531 (11th Cir. 1985); *George W. Luft Co. v. Zande Cosm. Co.*, 142 F.2d 536, 539 (2d Cir. 1944).

dInc seeks to litigate trademark infringement claims that the Dutch court ***137** could not effectively adjudicate, for the Dutch ruling would carry little force in the United States. *See* Otokoyama Co. v. Wine of Japan Imp., Inc., 175 F.3d 266, 272 (2d Cir. 1999) (explaining that a claimant's rights or lack of rights "to a trademark in the United States cannot be established by" the rulings of a "foreign court"). As the district court observed, dBV failed to show that Dutch courts have jurisdiction to address dInc's trademark infringement claim, and "the Dutch courts have abstained from addressing [dInc's] intellectual property claims that are asserted in this action." *dmarcian II*, 2021 WL 2144915, at *12 n.14.

Without the ability to offer dInc a remedy that would "traverse international borders," the Dutch courts could not provide relief even if dInc proved itself wronged. *Kos Pharms., Inc. v. Andrx Corp.*, 369 F.3d 700, 714 (3d Cir. 2004); *see also Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 639 (2d Cir. 1956) (explaining the general principle that "the decisions of foreign courts concerning the respective trade-mark rights of the parties are irrelevant and inadmissible" in "American court"). That Dutch courts could at most offer dInc a remedy in name only cuts sharply against labeling the Dutch court an adequate forum because there is a "danger that [dInc] will be deprived of any remedy" regarding its trademark claims. *Piper Aircraft*, 454 U.S. at 255, 102 S.Ct. 252.

Unavailability of a certain remedy is proper grounds for rejecting a *forum non conveniens* motion. *Galustian*, 591 F.3d at 732. For example, when a foreign court provided no civil cause of action for defamation, we deemed that foreign court was not shown to be adequate. *Id.* We reached the same conclusion when a foreign court provided no cause of action for wrongful arrest. *Fid. Bank PLC v. N. Fox Shipping N.V.*, 242 F. App'x 84, 92–93 (4th Cir. 2007).

The lack of a remedy for certain intellectual property claims proves fatal to the adequacy of the alternative forum. Other circuits share this understanding. The Federal Circuit has explained that it is "particularly important that a *forum non conveniens* movant demonstrate the adequacy of an alternative forum when the dispute implicates the enforcement of intellectual property rights." *Halo Creative & Design Ltd. v. Comptoir Des Indes Inc.*, 816 F.3d 1366, 1373 (Fed. Cir. 2016). Without an adequate forum to vindicate U.S. copyright, patent, and trademark rights, the laws protecting such rights would prove feeble. That is why district courts have "routinely" found alternative foreign forums inadequate "when United States intellectual property rights form the crux of the dispute." *Id.*; *see also Lang Van, Inc. v. VNG Corp.*, 40 F.4th 1034, 1043 (9th Cir. 2022) (quoting same language).

dBV has thus failed to carry its burden of showing an adequate and available alternative forum. Only if the alternative forum is both available and adequate must a court then weigh a list of public and private interest factors. Because we hold that the district court did not abuse its discretion in finding that dBV failed to show an adequate alternative forum, we need not reach the private and public interest factors. We affirm the district court's denial of dBV's motion to dismiss on *forum non conveniens* grounds.

The larger story here is that of a trans-Atlantic business relationship of no small duration where contacts were regularly traded back and forth between North Carolina and the Netherlands. For all the reasons noted above, we perceive no offense to law or justice for North Carolina federal court to serve as the forum for resolution of the case at bar.

***138** IV.

[25] [26] [27]We now turn to dBV's challenge of the May 2021 preliminary injunction. We review the district court's injunction for abuse of discretion, *Centro Tepeyac v. Montgomery Cnty.*, 722 F.3d 184, 188 (4th Cir. 2013), examining all factual findings for clear error and legal conclusions de novo, *Leaders of a Beautiful Struggle v. Baltimore Police Dep't*, 2 F.4th 330, 339 (4th Cir. 2021). Though an "extraordinary remedy," a preliminary injunction is warranted where the plaintiff has established "that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest." *Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 20, 24, 129 S.Ct. 365, 172 L.Ed.2d 249 (2008). dBV raises a challenge only to dInc's likelihood of success on the merits.

[28] [29]The district court issued a preliminary injunction as to dInc's copyright, trademark, trade secret, and tortious interference claims. At issue on appeal is the district court's conclusion that dInc had a likelihood of prevailing on the merits of these claims. dBV raises two main arguments. First, dBV contends that the district court impermissibly applied United States and North Carolina law extraterritorially, thus running afoul of the presumption against extraterritoriality, which establishes that "[a]bsent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application." *RJR Nabisco, Inc. v. Eur. Cmty.*, 579 U.S. 325, 335, 136 S.Ct. 2090, 195 L.Ed.2d 476 (2016). Second, dBV maintains that the district court's decision was premature in light of pending litigation in the Netherlands.

Neither argument proves availing. The relevant laws all concern dBV's conduct, which notably touched *American* customers. And the ongoing Dutch case did not preclude the district court's injunction, because no conceivable construction of dBV's 2016 license would have authorized its actions on a global scale.

A.

dBV contests whether dInc is likely to succeed on its copyright, trademark, trade secrets, and tortious interference claims. We consider each claim in turn.

1.

[30] [31] [32]Under the Copyright Act, "[a]nyone who violates any of the exclusive rights of the copyright owner ... is an infringer." 17 U.S.C. § 501(a). To establish copyright infringement, a plaintiff must prove "(1) ownership of a valid copyright, and (2) copying of constituent elements of [his] work that are original."

CoStar Grp., Inc. v. LoopNet, Inc., 373 F.3d 544, 549 (4th Cir. 2004) (internal quotation marks omitted). Because the Copyright Act has limited application abroad, a plaintiff must also show a "domestic violation." *Tire Eng'g*, 682 F.3d at 308. The district court determined that dInc would likely prevail on its copyright claim, and we agree.

First, dInc presented the district court with a copyright—registered in early 2021—of its 2012 source code. dBV attempts, for the first time in its reply brief, to cast doubt on the copyright's validity because dInc deposited an updated version of the 2012 source code with the Copyright Office. This belated claim is unpersuasive. The law establishes a presumption of validity for copyrights registered within five years of their first use. 17 U.S.C. § 410(c); *see, e.g., M. Kramer Mfg. Co. v. Andrews*, 783 F.2d 421, 434 (4th Cir. 1986). Even after that time, registration can still have ***139** probative value subject to the "discretion of the court." 17 U.S.C. § 410(c); *see, e.g., Silvertop Assocs. Inc. v. Kangaroo Mfg. Inc.*, 931 F.3d 215, 219 n.3 (3d Cir. 2019). The district court here found dInc's copyright to be valid. We do not find in the record the kind of evidence to overturn the district court on this point or to upset dInc's contention that any differences between the 2012 and 2021 versions of the source code were immaterial and, accordingly, unlikely to "jeopardize the validity of the registration." *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1161 (1st Cir. 1994).

Second, the district court reasonably found that dBV had reproduced elements of dInc's copyrighted source code outside the parameters of the 2016 agreement. We have previously held that a "licensee infringes the owner's copyright if its use exceeds the scope of its license." *Tattoo Art Inc. v. TAT Int'l LLC*, 498 F. App'x 341, 346 (4th Cir. 2012). Other circuits agree. *See, e.g., S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989); *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 775 n.8 (7th Cir. 1996). dBV admitted that the 2016 agreement permitted it to sell dInc's software in Europe and Africa. dBV likely went beyond the "scope" of its license by marketing its services to customers outside of Europe and Africa, thus encroaching on dInc's sales territory. In particular, there can be no reasonable contention that dBV's license extended to the ability to use dInc's own software to compete for dInc's own customers in the United States. dBV's efforts even led to onboarding a California-based company called Clarizen. In short, dBV marketed "copies" of dInc's "copyrighted work" in the United States without authorization. *CoStar*, 373 F.3d at 549. What was by all evidence intended as a cooperative agreement, encompassing the allocation of distinct sales territories, has been implausibly transformed before this court into something akin to a suicide note signed by dInc for the serious impairment of its business.

[33]Finally, the district court correctly determined that dBV committed a "domestic violation." As the district court explained, dBV was "servicing American customers who merely have offices and operations in Europe and elsewhere." *dmarcian II*, 2021 WL 2144915, at *17. This entailed the "using, copying, selling, and distributing" of dInc's copyrighted source code without authorization. *Id.* That dBV performed these acts from abroad is of no import. For a defendant who "directs infringing [material] into the United States from abroad commits a domestic violation of the Copyright Act." *Spanski Enterprises, Inc. v. Telewizja Polska, S.A.*, 883 F.3d 904, 916 (D.C. Cir. 2018).

dBV argues that the district court failed to identify an instance of infringement definitively involving a United States *natural person.* But dBV cites no authority for the proposition that United States *entities* do not count for purposes of the extraterritoriality analysis. dBV specifically contends that it only interacted, for example, with an Israeli citizen when it communicated with Clarizen. The fact remains, however, that Clarizen, a company whose principal place of business is California, remained an American company and customer of dInc, no matter the nationality of its individual employees. Decoupling the worker from the firm runs counter to the long-held premise that a "corporation will generally act by its agents." *Bank of U.S. v. Dandridge*, 25 U.S. (12 Wheat.) 64, 92, 6 L.Ed. 552 (1827).

Moreover, there is little reason to think that a United States headquarters would be impervious to copyright infringement originating in a European division. Corporations ***140** are not informational hermits; employees talk across departments. That dBV circulated copyrighted materials to the international employees of American companies makes it probable that at least some domestic colleague would have also received them. dBV does not specify any firewall or device that would have stopped such transfers. In sum, we do not think that the district court erred in finding that domestic violations occurred for purposes of extraterritorial application of the Copyright Act.

2.

[34]The district court likewise ruled that dInc was likely to succeed on a claim of trademark infringement under the

Lanham Act, which protects the "owner's exclusive right to use [a] registered mark in commerce." 15 U.S.C. § 1057(b). dInc's claim required establishing both (1) a valid mark and (2) the "likelihood of confusion" due to another mark in the marketplace. *Perini Corp. v. Perini Constr., Inc.*, 915 F.2d 121, 124 (4th Cir. 1990).

[35] [36]dInc is likely to succeed on its Lanham Act claim. dBV does not contest that dInc holds a valid trademark, registered as of 2019. And the similarity of the parties' marks has likely caused confusion in the email-security marketplace. As the district court explained, the two parties share similar domain names, "virtually identical" website designs, and "essentially the same" business services. *dmarcian II*, 2021 WL 2144915, at *18. What's more, dInc supplied evidence of "actual confusion" in the form of "several exhibits showing consumers that have contacted the parties or posted on the internet after becoming confused about the relationship between" dInc and dBV. *Id.* While dBV disputes whether those customers were genuinely confused, the lodestar for a trademark-infringement claim is "likelihood of confusion," not "actual confusion." *George & Co. LLC v. Imagination Ent. Ltd.*, 575 F.3d 383, 393 (4th Cir. 2009). It is all too predictable that homonymous companies selling the same software on nearly identical websites would spawn confusion. dInc has thus demonstrated a likelihood of prevailing on its Lanham Act claim.

[37]dBV again contests what it alleges is an extraterritorial application of this statute. While the Lanham Act has limited reach abroad, the district court correctly applied the three factors from *Steele v. Bulova Watch Co.*, 344 U.S. 280, 286, 73 S.Ct. 252, 97 L.Ed. 319 (1952), in rebutting the presumption against extraterritoriality. Those factors are whether (1) the defendant's extraterritorial conduct had a "significant effect on United States commerce"; (2) "the defendant was a citizen of the United States;" and (3) an injunction "would not interfere with the sovereignty of the nation within whose borders the extraterritorial conduct was to be prohibited." *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250 (4th Cir. 1994). dBV chiefly contests the first factor on appeal.

[38]As to the first factor, the district court found that dBV's websites provided an option for "the Americas," that at least one American company (Clarizen) had switched to dBV's platform, and that dBV had messaged American customers about a purported data breach. As mentioned, the district court also highlighted evidence of customers' confusion and the similarity of the parties' domain names. On these findings, the district court had ample grounds to conclude that dInc would likely show a "significant effect on United States commerce." *dmarcian II*, 2021 WL 2144915, at *19.

dBV again counters that dInc did not identify *natural persons* in the United States who were confused. But as in the ***141** copyright context, dBV does not explain why the "significant effect" inquiry cannot be satisfied by American *companies*, nor why confusion among employees in a European division would not spread to United States headquarters. Furthermore, the evidence that dBV's mark caused confusion among customers abroad indicates that United States customers were likely confused too. At bottom, it was not error for the district court to reason that dInc would prevail on its Lanham Act claim.

3.

[39]The district court also found that dInc would likely succeed on a misappropriation claim under the Defend Trade Secrets Act (DTSA). The DTSA allows an "owner of a trade secret that is misappropriated [to] bring a civil action ... if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce." 18 U.S.C. § 1836(b)(1). To prevail on such a claim, a plaintiff must accordingly establish (1) the existence of a trade secret, (2) the trade secret's misappropriation, and (3) that the trade secret implicates interstate or foreign commerce. *Oakwood Labs. LLC v. Thanoo*, 999 F.3d 892, 905 (3d Cir. 2021).

[40]Relevant here, the DTSA defines a trade secret as "financial, business, scientific, technical, economic, or engineering information, including ... programs[ ] or codes," where the "owner thereof has taken reasonable measures to keep such information secret[,] and the information derives independent economic value ... from not being generally known." 18 U.S.C. § 1839(3).

As the district court observed, dInc's "source code," "customer database," and business accounts are all likely trade secrets. *dmarcian II*, 2021 WL 2144915, at *21. dInc has taken steps to keep such information secret through security measures restricting access to the source code and requiring confidentiality agreements from employees. The relevant information holds economic value, moreover, by not being generally known. For instance, if other email-security companies knew the source code, they could reverse engineer dInc's software and entice customers with a competing product. Likewise, if dInc's list of sales leads was generally known, the value of that list would decline as its members become inundated with rival offers.

Furthermore, the district court found that dBV had misappropriated dInc's trade secrets by using them to compete with dInc. Such conduct by dBV would have exceeded "the scope of the parties' agreement." *Id.* And finally, there is little question that dBV deployed the trade secrets in foreign commerce. We accordingly agree with the district court the dInc would likely satisfy the elements of the DTSA.

[41]Though dBV once again invokes the presumption against extraterritoriality, the district court was careful to assess whether "an act in furtherance of the offense" took place in the United States, as the DTSA requires. 18 U.S.C. § 1837(2). The district court noted the "relatively low bar" for this requirement: "courts place less import on the scope of the actions committed within the United States than the tie between those actions and the misappropriation." *dmarcian II*, 2021 WL 2144915, at *22. In this light, the district court correctly concluded that two of dBV's "acts" in the United States would qualify: First, dBV had "originally gained access" to dInc's trade secrets through "data stored on servers within the United States"; and second, dBV had likely facilitated the trade secrets' "use or disclosure ... within the United States." *Id.*

***142** While dBV insists that it only received the alleged trade secrets "under an agreement reached in the Netherlands," Appellant Br. at 53, this sidesteps the district court's point. dInc only needed to show that "an act" occurred in the United States, not the entire "offense." 18 U.S.C. § 1837(2). That dBV retrieved the trade secrets from dInc's North Carolina servers is enough for establishing a domestic nexus. Additionally, while dBV again objects to the district court's treatment of American companies as being "within the United States," we remain unmoved for the reasons discussed in the copyright and trademark contexts. An employee's nationality does not negate the status of his employer. At bottom, the district court did not err in concluding that dInc would likely show dBV had misappropriated trade secrets under the DTSA.

4.

[42] [43]Finally, the district ruled that dInc would likely succeed on two state-law claims: tortious interference with contract and tortious interference with prospective economic advantage. Because these torts can potentially interfere with healthy commercial competition, North Carolina has been careful to cabin them. Under North Carolina law, the first claim (tortious interference with contract) requires demonstrating (1) a valid contract between the plaintiff and a third person; (2) the defendant's knowledge of the contract; (3) that the defendant intentionally induced the third person not to perform the contract; (4) that the defendant acted without justification; and (5) that the plaintiff suffered actual damage. *Intersal, Inc. v. Hamilton*, 373 N.C. 89, 834 S.E.2d 404, 413 (2019). The second claim (tortious interference with prospective economic advantage) requires showing a defendant "maliciously induc[ed] a person not to enter into a contract with [the plaintiff], which he would have entered into but for the interference, if damage proximately ensues, when this interference is done not in the legitimate exercise of the [defendant's] rights." *Beverage Sys. of the Carolinas, LLC v. Associated Beverage Repair, LLC*, 368 N.C. 693, 784 S.E.2d 457, 463 (2016) (internal quotation marks omitted).

[44]As to the first claim, the district court found evidence that dBV had lured Clarizen, "one of [dInc's] U.S. customers" away from dInc over to dBV. *dmarcian II*, 2021 WL 2144915, at *23. Based on that example, the district court did not err in determining that dInc would prevail on the elements of a tortious interference claim. The district court could fairly have concluded that dInc had a valid contract with Clarizen, of which dBV was aware, and with which dBV interfered without justification, thereby harming dInc's business. Indeed, the record indicates that dBV won over Clarizen after announcing a purported data breach and then advertising its "safe new platform" to dInc clients. *Id.* at *5. While further discovery could reveal other such incidents, the Clarizen example is enough for dInc to show a likelihood of success at the present stage.

[45]For dInc's second claim, the district court found that dInc could show that a "contract would have ensued but for [dBV's] interference." *Beck v. City of Durham*, 154 N.C.App. 221, 573 S.E.2d 183, 191 (2002). Because dInc's website was a prolific acquisition channel, allegedly generating hundreds of new customers each month, the district court reasonably surmised that dBV's "misleadingly similar" websites had siphoned off would-be customers from dInc. *dmarcian II*, 2021 WL 2144915, at *24.

dBV argues that North Carolina law does not extend to it, because dBV "never entered into, or interfered with, any contract ***143** between dInc and any person ... in the United States." Appellant Br. at 54. Here the injury was not only to an American company but specifically to a North Carolina company as well. As discussed in the copyright, trademark, and trade secrets contexts, dBV *did* market to United States customers by targeting overseas offices of American companies, including Clarizen. While dBV may have only corresponded with foreign employees, the American companies themselves—and not their employees—would presumably have assumed the obligations of any contract with dBV. Furthermore, dInc alleged that dBV websites sent users clicking on "the Americas" to dBV's own platform. Moreover, the ultimate harm from the alleged tortious interference fell on a North Carolina entity. We thus disagree that North Carolina law cannot reach dBV.

The district court did not err in concluding, based on the available evidence, that dInc was likely to prevail on its copyright, trademark, trade secret, and tortious interference claims. dBV does not challenge the district court's analysis of the remaining three elements of the preliminary injunction: dInc's likelihood of irreparable harm, the balance of equities, and the public interest. For these elements, we shall thus affirm the district court.

B.

We must consider one last objection regarding the preliminary injunction. dBV contends that the district court abused its discretion by issuing the preliminary injunction before the Rotterdam Court had clarified the status of the parties' 2016 agreement. In dBV's telling, "all dInc's claims" rest on the flawed premise that dInc had rightfully terminated the 2016 agreement between the parties. Appellant Br. at 43.

We are not so persuaded. Whether or not the agreement had been terminated, dBV's conduct still reflects a violation of the statutes discussed at some length above. In other words, it matters not whether the agreement was still in place. The district court did not abuse its discretion in concluding, at this preliminary stage, that the license would not plausibly account for a record of full-rigged piracy. Of course dBV had every incentive to get the permissive license that it sought in writing, for dBV admitted its position would be "hugely improved" if the agreement were in the record. Oral Arg. at 49:26. Its case is substantially weakened by the fact that the agreement dBV sought is nowhere in the record. The absence of a memorialized agreement or even a plausible reading of a non-memorialized understanding, paired with the narrow tailoring of the district court's injunctive decree, reconcile us to the district court's view.

To begin with, the district court understandably rejected dBV's self-portrayal as "merely continuing to perform the agreement." Appellant Reply Br. at 13. The district court repeatedly described conduct by dBV, following the Dutch court's ruling in February 2021, that conformed neither to the parties' prior course of dealings nor any plausible construction of the 2016 license. For example, the district court found that dBV "broke completely free from [dInc's] platform and operations and terminated [dInc's] access to certain customer information." *dmarcian II*, 2021 WL 2144915, at *5. The district court also determined that dBV had reported an ostensible data breach "to every customer [of the parties], including those located within the United States," and messaged existing dInc clients about dBV's "safe new platform." *Id.* at *5, *19. The district court emphasized, moreover, evidence that dBV had begun to "conduct business with customers in the United States, including a ***144** California company named Clarizen," and that dBV's websites routed users clicking on "the Americas" to its own platform. *Id.* at *22.

These findings would hardly be less damaging to dBV whether or not the 2016 agreement remained in place. That license may well have given dBV the right to operate under the "dmarcian" name within a certain geographic footprint. But it is difficult to conceive of any license authorizing dBV to compete head-on with dInc, including in the United States, while acting as dInc's corporate doppelgänger. The district court also found no precedent for dBV's competitive behavior in the parties' dealings before February 2021. *See dmarcian II*, 2021 WL 2144915, at *3–5. Even dBV's co-founder, Groeneweg, did not suggest that the 2016 license had teed off a worldwide fight to the finish. Rather he articulated the license as assigning dBV a narrower—and more plausible—right to "exclusively sell to and handle all customers from Russia, Europe and Africa." J.A. 786.

[46]"Common sense," in the words of a sister circuit, "is as much a part of contract interpretation as is the dictionary or the arsenal of canons." *Fishman v. LaSalle Nat. Bank*, 247 F.3d 300, 302 (1st Cir. 2001). Although the agreement in the present case was never written down, the district court did not err in combining law with logic. Whatever the license's precise contours, it makes little sense that dInc would have given away the store—source code, client lists, and trademark—to a first-time partner who would then utilize dInc's entire shelf of intellectual properties to put dInc out of business.

If dInc had so exposed itself, moreover, we note, once again, that dBV would likely have at least insisted on memorializing the agreement in some way. The glaring absence of a written agreement in the record suggests, however, that dBV did not. Whether or not the purported agreement is ultimately found to run afoul of a statute of frauds, it is a tall order to ask courts to blindly accept the alleged contents of an oral contract of this magnitude. As a sophisticated business party, dBV should have known better than to expect courts to accept its questionable methods or take it at its facially dubious word. All told, without a license in writing to point to and given the sensible conclusion that dInc would not have connived with dBV to effectuate dInc's own demise, the district court's decision seems soundly based.

Furthermore, the district court is "better positioned than we are to weigh the costs and benefits of injunctive relief," *Lord & Taylor, LLC v. White Flint, L.P.*, 780 F.3d 211, 217 (4th Cir. 2015), and its decree here reflected "the necessities of the particular case," *Hecht Co. v. Bowles*, 321 U.S. 321, 329, 64 S.Ct. 587, 88 L.Ed. 754 (1944). The district court did not assume any one resolution to the Netherlands litigation. Instead, it simply barred dBV from using dInc's intellectual property outside any conceivable limits of the 2016 license, pending conclusion of the United States litigation. The injunctive decree thus ordered dBV to confine its activities to Europe and Africa (Paragraphs 1–2), not take certain steps to compete directly with dInc (Paragraphs 6–7), and disclaim the nature of its relationship to dInc should it wish to continue using dInc's trademark (Paragraphs 4–5). The decree's remaining provision instructed dBV to make no further alterations to the dmarcian software (Paragraph 3). Nowhere did the decree forbid dBV from servicing customers in Europe and Africa, nor from dressing itself in dInc's mark on those continents if accompanied by the disclaimer. The preliminary injunction also ***145** did not compel dBV to negotiate a new license or pay a licensing fee.

[47]Altogether, the district court fashioned a narrow injunction independently of the outcome of the Dutch case. We hold that the district court was within its discretion to do so. The interim equitable relief here in fact bore aspects of a sensible protective order. As noted above, the Dutch courts are limited in the ability to enforce violations of American trademarks. Had the district court failed to act in the face of the above facts, dInc's entire store of intellectual property rights, the company's very core, would have been left defenseless against what the trial court not unreasonably perceived to be a continuing piracy.

A note of caution, however, is still in order. We note that while the district court's preliminary injunction was a final order for purposes of appeal, it is not final for resolution of the merits of this particular complex international controversy and not impervious to modification or adjustment in the event the trial court determines future evidence or judicial rulings so warrant. *See* *Univ. of Texas v. Camenisch*, 451 U.S. 390, 395, 101 S.Ct. 1830, 68 L.Ed.2d 175 (1981) (emphasizing that the "purpose of a preliminary injunction is merely to preserve the relative positions of the parties" pending a final decision on the merits); *see also* *Jonibach Mgmt. Tr. v. Wartburg Enterprises, Inc.*, 750 F.3d 486, 491 (5th Cir. 2014) (same in the context of an international business dispute).

V.

[48] [49]dBV's remaining challenge concerns the district court's contempt order, which we review for abuse of discretion. *Fed. Trade Comm'n v. Pukke*, 53 F.4th 80, 101 (4th Cir. 2022). Since the contempt order was based on the district court's preliminary injunction, "our review is even more deferential because district courts are in the best position to interpret their own orders." *JTH Tax, Inc. v. H & R Block E. Tax Servs., Inc.*, 359 F.3d 699, 705 (4th Cir. 2004).

[50]To establish civil contempt, the moving party must show by clear and convincing evidence "(1) the existence of a valid decree of which the alleged contemnor had actual or constructive knowledge; (2) that the decree was in the movant's favor; (3) that the alleged contemnor by its conduct violated the terms of the decree, and had knowledge (at least constructive knowledge) of such violations; and (4) that the movant suffered harm as a result." *Pukke*, 53 F.4th at 101 (internal quotation marks omitted).

[51]The district court's analysis here was straightforward: dBV had knowledge of the injunctive decree against it from the district court's May 2021 order; this decree benefited dInc by seeking to prevent dBV's misuse of dInc's intellectual property; dBV knowingly violated the decree by failing to make required disclaimers when utilizing the "dmarcian" trademark; and as a result, dInc suffered the presumptive harm of consumer confusion. *dmarcian IV*, 2021 WL 3561183, at *7–8.

dBV contends that the district court erred in finding that it had contemptuously violated the May 2021 preliminary injunction. Specifically, dBV argues that it understood its use of the trademark "dmarcian" in domain names—such as dmarcian.nl, dmarcian.es, and dmarcian.eu—to comply with the injunctive decree. Yet Paragraph 4 of that decree instructed dBV to cease using dInc's trademark "in any manner" without an accompanying disclaimer. *dmarcian*

II, 2021 WL 2144915, at *27. The words "in any manner" did not invite dBV to fashion an exception for domain names. ***146** While dBV protests that the disclaimer would not fit onto a domain name, the district court was best positioned to interpret its own order. It acted well within its discretion to conclude that dBV's argument was "disingenuously technical," and that dBV had made "no good faith attempt to comply." *dmarcian IV*, 2021 WL 3561183, at *7. As the district court pointed out, dBV could have at least added the disclaimer on each website's landing page or moved the court to clarify Paragraph 4's applicability. *Id.* And while dBV objects that customers would not have been confused by the domain name alone, we find that the district court sensibly reasoned that users on "dmarcian.es," for instance, would think they were accessing a dInc website.

[52] [53]Although we find the district court did not abuse its discretion by holding dBV in contempt of its preliminary injunction, we perceive greater merit in dBV's arguments as to the amount of the resulting sanction. A civil contempt sanction must serve either to (1) "coerce obedience to a court order," or (2) "compensate the complainant for losses sustained as a result of the contumacy." *Cromer v. Kraft Foods N. Am., Inc.*, 390 F.3d 812, 821 (4th Cir. 2004) (internal quotation marks omitted). The $5,000-per-day sanction here only pertained to dBV's previous conduct and hence did "not coerce any compliance." *In re Magwood*, 785 F.2d 1077, 1082 (D.C. Cir. 1986). As a result, the sanction—which ultimately summed to $335,000 for 67 days of violative conduct—can only be justified as compensatory. But the district court did not sufficiently specify how its $5,000-per-day formula approximated "losses incurred" to dInc. *Buffington v. Baltimore Cnty., Md.*, 913 F.2d 113, 134 (4th Cir. 1990). The district court only generally alluded to the parties' total "volume of business" in explaining the formula. *dmarcian IV*, 2021 WL 3561183, at *9.

[54]While measuring the harm from trademark confusion can be a difficult enterprise, it remains the district court's responsibility to ensure the sanction amount is "tailored to compensate the complaining party." *Buffington*, 913 F.2d at 134. Otherwise, the line between civil and criminal contempt, or "the boundary from compensation to punishment," is blurred. *Goodyear Tire & Rubber Co. v. Haeger*, 581 U.S. 101, 108, 137 S.Ct. 1178, 197 L.Ed.2d 585 (2017).

dInc's attempts here to justify the district court's sanction fall short. That $5,000 represents roughly half of dBV's daily income does not explain why that amount is "rationally related" to the harm dealt to dInc. Oral Arg. at 40:34. Likewise, the fact that the aggregate sanction of $335,000 is within the range for statutory damages under the Lanham Act does not illuminate how the district court arrived at the $5,000-per-day formula, nor relate to the losses sustained by dInc from dBV's violation of the injunctive decree.

In sum, although we are sympathetic to the challenges of quantifying trademark harm, we simply hold that more was needed from the district court to ground the amount of sanctions imposed here. In so doing, we express no view on the correctness of the amount in dispute on this appeal. We thus reverse the parts of its orders referring to a specific amount of sanctions, and remand for further analysis and calculation on this point.

VI.

International business relationships will often involve uncertainty regarding foreign law and foreign courts. Contracts will not always be perfectly clear, choice of law instructions may not always be precisely ***147** set forth, and the parties themselves might not be fluent in foreign statutes. American judges must therefore be sensitive to unanticipated contingencies that can arise in any transnational business relationship. These relationships will inevitably implicate the legitimate interests of foreign nations, businesses, and ordinary citizens, making it vital that jurists across the globe respect "the laws of one nation within the territories of another." J. Story, Commentaries on the Conflict of Laws § 38 (1834). This principle of comity "contributes [ ] largely to promote justice between individuals, and to produce a friendly intercourse between the sovereignties to which they belong." *Hilton v. Guyot*, 159 U.S. 113, 165, 16 S.Ct. 139, 40 L.Ed. 95 (1895) (internal quotation marks omitted). If American judges trample on or overlook the laws and sovereign claims of other countries, we inevitably invite retaliation against American companies and fuel an inhospitable climate for American businesses seeking to expand their markets and enterprises abroad. We therefore must not neglect the "systemic value of reciprocal tolerance and goodwill" fostered by respect for foreign courts. *Societe Nationale Industrielle Aerospatiale v. U.S. Dist. Ct. for S. Dist. of Iowa*, 482 U.S. 522, 555, 107 S.Ct. 2542, 96 L.Ed.2d 461 (1987) (Blackmun, J., concurring).

There is, as so often the case with law, another side. When American companies extend their reach or, as here, partner with corporations from abroad, they often put their intellectual property on the line. Their overtures can entail sharing sensitive proprietary information, rendering vital resources vulnerable to unscrupulous actors. And if others abuse their access to valuable information, American businesses stand to lose if they have no effective recourse to legal protection. The outcome of this unfortunate scenario is foreseeable—if left to fend for themselves, businesses will evade the risks of global commerce, foregoing innovation and growth overseas for safety and security at home.

American courts of law are meant to offer, not home cooking, but at least a degree of refuge from this danger. United States companies should feel confident that the courthouse door is open to them when their intellectual property is misused by foreign corporations. That is why statute after statute contemplates at least some foreign conduct. *See, e.g., WesternGeco LLC v. ION Geophysical Corp.*, ––– U.S. ––––, 138 S. Ct. 2129, 2138–39, 201 L.Ed.2d 584 (2018) (Patent Act); *Bulova Watch Co.*, 344 U.S. at 286, 73 S.Ct. 252 (Lanham Act); *Spanski Enterprises*, 883 F.3d at 914 (Copyright Act); *Amyndas Pharms., S.A. v. Zealand Pharma A/S*, 48 F.4th 18, 35 (1st Cir. 2022) (Defend Trade Secrets Act). Only if businesses believe their valued intellectual property rights can be vindicated will they trust that they can safely engage in commerce beyond our borders.

Cases like the current one will involve a balance. “Due regard” is owed “both to international duty and convenience, and to the rights of [a country’s] own citizen.” *Hilton*, 159 U.S. at 164, 16 S.Ct. 139. We largely affirm the district court because, as part of that balance, its preliminary injunction protected in a narrow fashion unquestioned intellectual property interests from infringement by questionable means. To leave the intellectual properties of dInc wholly without protection during the pendency of long-running litigation would be to ignore the rights discussed above and the good work and perspective brought by the district court to this case.

The district court did not err in exercising personal jurisdiction, in declining to dismiss for *forum non conveniens*, and in issuing a preliminary injunction. The district ***148** court was also justified in issuing a contempt sanction; we simply require a more thorough examination of the sanction amount. While the preliminary injunction may not be the final word on the merits of this internationally entwined case, its entry was also not an abuse of discretion considering the weighty interests and detailed findings discussed at length above. The judgment of the district court regarding personal jurisdiction, *forum non conveniens*, and the preliminary injunction is therefore affirmed. Its judgment as to the contempt sanction amount is vacated and remanded for further proceedings consistent with this opinion.

AFFIRMED IN PART AND VACATED AND REMANDED IN PART

All Citations

60 F.4th 119

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436 F.Supp.3d 1150
United States District Court, N.D. Illinois, Eastern Division.

MOTOROLA SOLUTIONS, INC., et al., Plaintiffs,
v.
HYTERA COMMUNICATIONS CORP. LTD., et al., Defendants.

Civil Action No. 1:17-cv-1973
|
Signed January 31, 2020

Synopsis
Background: Radio manufacturer brought action against competitor, asserting claims for trade secret misappropriation and copyright infringement based on allegations that competitor hired three engineers away from manufacturer and that those engineers used trade secrets to develop digital radio that was functionally indistinguishable from manufacturer's radios. Competitor filed motion to preclude manufacturer from relying on extraterritorial damages.

Holdings: The District Court, Charles Norgle, J., held that:

[1] manufacturer could maintain claim for extraterritorial damages under the Defend Trade Secrets Act (DTSA) resulting from competitor's misappropriation of alleged trade secrets;

[2] manufacturer was entitled to recover under the Copyright Act damages flowing from exploitation abroad of domestic acts of infringement committed by competitor, but

[3] Illinois Trade Secret Act (ITSA) did not have extraterritorial reach.

Motion granted in part and denied in part.

West Headnotes (28)

[1] **International Law** Federal acts and laws in general

At the first step of the two-step framework for analyzing extraterritoriality issues, a court asks whether the presumption against extraterritoriality has been rebutted, that is, whether the relevant federal statute gives a clear, affirmative indication that it applies extraterritorially.

1 Case that cites this headnote

[2] **International Law** Federal acts and laws in general

If no clear, affirmative indication exists that a federal statute applies extraterritorially, the statute is not extraterritorial and the court proceeds to the second step of the two-step framework for analyzing extraterritoriality issues, in which it determines whether the case involves a domestic application of the statute; this determination is made by determining the statute's focus.

[3] **International Law** Federal acts and laws in general

In determining whether a case involves a domestic application of a federal statute under the two-step framework for analyzing extraterritoriality issues, if the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in United States territory.

[4] **International Law** Presumption against extraterritoriality

It is a basic premise of the legal system that, in general, United States law governs domestically but does not rule the world; this principle is expressed as the presumption against extraterritoriality, which governs a court's interpretation of whether a federal statute reaches beyond the United States.

1 Case that cites this headnote

[5] **International Law** Federal acts and laws in general

Absent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application.

[6] **International Law** Presumption against extraterritoriality

The question of whether the presumption against extraterritoriality has been rebutted is not whether courts think Congress would have wanted a federal statute to apply to foreign conduct if it had thought of the situation before the court, but whether Congress has affirmatively and unmistakably instructed that the statute will do so.

[7] **International Law**Federal acts and laws in general

When interpreting a federal statute, a court looks for a clear indication of extraterritorial application; if none is found, the statute applies only domestically, and the analysis shifts to the second step of the two-step framework for analyzing extraterritoriality issues.

[8] **International Law**Federal acts and laws in general

In determining whether a clear indication exists that a federal statute applies extraterritorially, courts use traditional tools of statutory interpretation; specifically, courts analyze the plain language of the statute and the statutory provisions at issue, the surrounding context, and, relatedly, how that plain language interacts with the general statutory structure.

[9] **International Law**Criminal justice

Just because a federal statute establishes extraterritorial reach in a criminal context, a private right of action based on similar acts does not necessarily also have extraterritorial reach.

[10] **International Law**Presumption against extraterritoriality

The language of a federal statute is key in determining whether the presumption against extraterritoriality has been rebutted.

1 Case that cites this headnote

[11] **International Law**Federal acts and laws in general

Absent a clear indication that a federal statute applies extraterritorially, a party may in certain circumstances still recover damages from outside of the United States if the conduct relevant to the statute's focus occurred in the United States; this is the case even if other conduct occurred abroad.

1 Case that cites this headnote

[12] **International Law** Federal acts and laws in general

When determining the focus of a federal statute under the two-step framework for analyzing extraterritoriality issues, courts do not analyze the provision at issue in a vacuum; if the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions.

[13] **International Law** Federal acts and laws in general

Discerning the focus of a federal statute under the two-step framework for analyzing extraterritoriality issues involves an interpretation of what the legislature was concerned with when it enacted the law.

[14] **International Law** Federal acts and laws in general

It is not enough to say that a private right of action must reach abroad because the underlying law governs conduct in foreign countries; something more is needed to apply a federal statute extraterritorially.

[15] **International Law** Particular Subjects

The Defend Trade Secrets Act (DTSA) may apply extraterritorially in a private cause of action if either of the requirements for applying the statute to conduct outside the United states are met. 18 U.S.C.A. §§ 1831 et seq., 1836(b), 1837.

2 Cases that cite this headnote

[16] **Antitrust and Trade Regulation** Damages

Act in furtherance of competitor's use of radio manufacturer's alleged trade secrets occurred domestically, and thus, manufacturer could maintain claim for extraterritorial damages under the Defend Trade Secrets Act (DTSA) resulting from competitor's misappropriation of alleged trade secrets, although competitor's use started before DTSA was enacted; competitor advertised, promoted, and marketed products embodying the allegedly stolen trade secrets domestically at numerous trade shows. 18 U.S.C.A. §§ 1837(b)(2), 1839(5)(A)-(B).

2 Cases that cite this headnote

[17] **Antitrust and Trade Regulation** Elements of misappropriation

Misappropriation of a trade secret, by its terms, is not limited to the acquisition of the secret. 18 U.S.C.A. §§ 1836(b), 1839(5)(A)-(B).

3 Cases that cite this headnote

[18] **Antitrust and Trade Regulation** Elements of misappropriation

Misappropriation of a trade secret can occur through any of three actions: (1) acquisition, (2) disclosure, or (3) use. 18 U.S.C.A. §§ 1836(b), 1839(5)(A)-(B).

1 Case that cites this headnote

[19] **Antitrust and Trade Regulation** Elements of misappropriation

Marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret all constitute "use," as would support a misappropriation of trade secret claim under the Defend Trade Secrets Act (DTSA). 18 U.S.C.A. §§ 1839(5), 1839(5)(A)-(B).

5 Cases that cite this headnote

[20] **Statutes** Technical terms, terms of art, and legal terms

In enacting a statute, where Congress borrows terms of art in which are accumulated the legal tradition and meaning of centuries of practice, it presumably knows and adopts the meaning its use will convey to the judicial mind unless otherwise instructed.

[21] **Antitrust and Trade Regulation** Damages
International Law Particular Subjects

Radio manufacturer's misappropriation of trade secrets action consisted of permissible domestic application of the Defend Trade Secrets Act (DTSA), and thus, manufacturer could maintain claim for extraterritorial damages under the DTSA resulting from competitor's misappropriation; focus of DTSA was on creating remedy for trade secret owner for misappropriation, misappropriation could take place through "use," and manufacturer showed that "use" of alleged trade secrets occurred domestically. 18 U.S.C.A. §§ 1836, 1839(5)(A)-(B).

1 Case that cites this headnote

[22] **Copyrights and Intellectual Property**Copyright Protection in General
Copyrights and Intellectual Property Monetary Relief

Radio manufacturer was entitled to recover under the Copyright Act damages flowing from exploitation abroad of domestic acts of infringement committed by competitor, where foreign violations were directly linked to domestic infringement. 17 U.S.C.A. §§ 106, 501 et seq.

1 Case that cites this headnote

[23] **Copyrights and Intellectual Property**Predicate acts
Copyrights and Intellectual Property Monetary Relief

In essence, the "predicate-act doctrine" states that once a plaintiff demonstrates a domestic violation of the Copyright Act, it may collect damages from foreign violations that are directly linked to the United States infringement. 17 U.S.C.A. §§ 106, 501 et seq.

2 Cases that cite this headnote

[24] **Antitrust and Trade Regulation**Constitutional and statutory provisions

Statutory language contained in the Illinois Trade Secret Act (ITSA) did not clearly express intent by legislature for extraterritorial reach of the ITSA, and thus, ITSA did not have extraterritorial reach under Illinois law; if ITSA provision, clarifying that duty to maintain secrecy should not be invalidated because of the lack of durational or geographical limitation on the duty, was read broadly to remove durational and geographic limits on ITSA claims, one of the durational provisions would be rendered superfluous, and clearer reading of the provision was that legislature was concerned with courts' analysis of the reasonableness of restrictive covenants and sought to clarify. 765 Ill. Comp. Stat. Ann. 1065/1 et seq., 1065/8.

2 Cases that cite this headnote

[25] **Statutes**Extraterritorial operation

An Illinois statute should not be given extraterritorial effect if it does not clearly appear therefrom that such was the intention of the legislature.

3 Cases that cite this headnote

[26] **Statutes**Extraterritorial operation

In determining whether an Illinois statute should be given extraterritorial effect, the question is not whether the statute contains language limiting the statute to Illinois, but whether extraterritoriality clearly appears within the text of the statute.

3 Cases that cite this headnote

[27] **Statutes**Statute as a Whole; Relation of Parts to Whole and to One Another
StatutesRelated provisions

A fundamental principle of statutory construction under Illinois law is to view all provisions of a statutory enactment as a whole; accordingly, words and phrases should not be construed in isolation, but must be interpreted in light of other relevant provisions of the statute.

[28] **Statutes**Superfluousness
StatutesUnintended or unreasonable results; absurdity

Under Illinois law, courts should not adopt strained readings of a statute that render one aspect of the statute superfluous.

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ORDER

CHARLES RONALD NORGE, Judge

***1154** Defendants' motion to preclude Motorola from relying on extraterritorial damages [758] is granted in part and denied in part.

STATEMENT

On Monday, December 2, 2019, more than two years after this case was initially filed, Hytera Communications Corporation Ltd., Hytera America, Inc., and Hytera Communications America (West), Inc. (collectively, "Defendants,") filed a motion "to preclude Motorola from relying on extraterritorial damages." Dkt. 758. The motion was filed shortly after midnight, only hours before the thirteenth day of the ongoing jury trial. On that same day, Motorola Solutions, Inc. and Motorola Solutions Malaysia Sdn. Bhd. (collectively, "Plaintiffs") intended to call an expert to testify on damages, including extraterritorial damages. The Court, after a brief colloquy with defense counsel, exercised its discretion to provisionally allow testimony regarding extraterritorial damages, subject to the understanding that after the Court analyzed the motion and issued a ruling the jury would be instructed as to what damages it could properly consider or a limiting instruction if the Court ruled in Defendants' favor.

For the following reasons, Defendants' motion is granted in part and denied in part.

I. BACKGROUND

By way of brief background, Plaintiffs have brought three claims against Defendants: trade secret misappropriation under the recently enacted Defend Trade Secrets Act of 2016, 18 U.S.C. §§ 1836(b), 1839 *et seq.*, trade secret misappropriation under the Illinois Trade Secret Act, 765 ILCS 1065 *et seq.*, and copyright infringement under the Copyright Act, 17 U.S.C. §§ 106, 501 *et seq.* In essence, Plaintiffs allege that Defendants hired three engineers away from Plaintiffs' Malaysian office, that those engineers stole and brought with them thousands of Plaintiffs' technical, confidential documents, and that Defendants used those documents, which contained trade secrets and lines of source code, to develop a state-of-the-art digital radio that is functionally indistinguishable from Plaintiffs' radios. Defendants then sold those radios all around the world, including in the United States.

Put simplistically, Defendants argue that none of these three statutes have extraterritorial effect and all damages should be limited only to domestic applications of the respective statutes. Plaintiffs respond by arguing that Defendants have waived this challenge, and even if they have not, the statutes should reach extraterritorially in this case—either because the statutes apply extraterritorially or because the conduct being regulated by the statutes was domestic in this case and thus this case represents a proper domestic application of the statutes, which in turn ***1155** allows Plaintiffs also to recover for damages extraterritorially.

This issue of what the statutes authorize, in the Court's view, is not a defense and has not been waived by Defendants. The Court exercises its discretion to reach the merits of the motion rather than to hold that this important issue has been waived.

No prejudice will accrue to Plaintiffs and an instruction on what damages may properly be considered will not destroy Plaintiffs' credibility with the jury. The Court thus turns to each statute in turn.

II. ANALYSIS

A. The Federal Claims under the Defend Trade Secrets Act and the Copyright Act

1. The Extraterritoriality Analysis, Generally

[1] [2] [3]The Supreme Court has promulgated a two-step framework for analyzing extraterritoriality issues,[1] discussed in depth below. At the first step, a court asks whether the presumption against extraterritoriality "has been rebutted—that is, whether the statute gives a clear, affirmative indication that it applies extraterritorially." RJR Nabisco, Inc., v. European Cmty., ––– U.S. ––––, 136 S. Ct. 2090, 2101, 195 L. Ed. 2d 476 (2016). If no clear, affirmative indication exists, the statute is not extraterritorial and the court proceeds to a second step, in which it determines whether the case involves "a domestic application of the statute." Id. This determination is made by determining the statute's focus. "If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory." Id.

a. The Presumption Against Extraterritoriality

[4] [5]The first step of the extraterritoriality analysis deals with the presumption against extraterritoriality. The baseline principles underlying this canon of statutory construction are well developed by the Supreme Court. To begin, it is a "basic premise" of our legal system that, in general, United States law "governs domestically but does not rule the world." RJR Nabisco, Inc., 136 S. Ct. at 2101 (citing Microsoft Corp. v. AT & T Corp., 550 U.S. 437, 454, 127 S. Ct. 1746, 167 L. Ed.2d 737 (2007)) (internal quotations omitted). This principle is expressed as the "presumption against extraterritoriality," which governs a court's interpretation of whether a statute reaches beyond the United States. Id. Specifically, "[a]bsent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application." Id. (citing Morrison v. National Australia Bank Ltd., 561 U.S. 247, 255, 130 S. Ct. 2869, 177 L. Ed.2d 535 (2010)). This presumption rests on the "commonsense notion that Congress generally legislates with domestic concerns in mind.... And it prevents unintended clashes between our laws and those of other nations which could result in international discord." WesternGeco LLC v. ION Geophysical Corp., ––– U.S. ––––, 138 S. Ct. 2129, 2136, 201 L. Ed. 2d 584 (2018) (internal citations and quotations omitted).

[6] [7]As to this first step of the extraterritorial analysis, RJR Nabisco cautions that "[t]he question is not whether we ***1156** think Congress would have wanted a statute to apply to foreign conduct if it had thought of the situation before the court, but whether Congress has affirmatively and unmistakably instructed that the statute will do so." Id. (internal quotations omitted). When interpreting a statute, a court thus looks for a "clear indication" of extraterritorial application; if none is found, the statute applies only domestically, and the analysis shifts to the second step. See Morrison, 561 U.S. at 255, 130 S.Ct. 2869.

[8]In determining whether a "clear indication" exists, courts use traditional tools of statutory interpretation. Specifically,

courts analyze the plain language of the statute and the statutory provisions at issue, e.g. Morrison, 561 U.S. at 261, 130 S.Ct. 2869, the surrounding context, Morrison, 561 U.S. at 265, 130 S.Ct. 2869 ("[a]ssuredly context can be consulted as well[ ]"), and, relatedly, how that plain language interacts with the general statutory structure, RJR Nabisco, 136 S. Ct. at 2101-03 (holding that, because certain predicate acts incorporated by reference into the RICO statute criminalized conduct occurring abroad, the criminal RICO provisions based on those violations had extraterritorial reach as well). The Supreme Court has cautioned, however, that the presumption against extraterritoriality is not a "clear statement rule" if "by that it is meant a requirement that a statute say 'this law applies abroad.' " Id.

[9]In the wake of RJR Nabisco, it is clear that just because a federal statute establishes extraterritorial reach in a criminal context, a private right of action based on similar acts does not necessarily also have extraterritorial reach. In RJR Nabisco, the Court found that although certain criminal RICO actions could be applied extraterritorially (where the underlying predicate acts clearly incorporated extraterritorial-reaching crimes), the private right of action did not extend extraterritorially, even when based on the same predicates. This holding was based on what the Court held to be limiting language in the provision creating the private right of action, bolstered by the idea that:

> The creation of a private right of action raises issues beyond the mere consideration whether underlying primary conduct should be allowed or not, entailing, for example, a decision to permit enforcement without the check imposed by prosecutorial discretion. Sosa v. Alvarez-Machain, 542 U.S. 692, 727, 124 S. Ct. 2739, 159 L. Ed.2d 718 (2004). It is not enough to say that a private right of action must reach abroad because the underlying law governs conduct in foreign countries. Something more is needed[.]

RJR Nabisco, 136 S. Ct. at 2108 (internal quotation omitted); see also id. ("The statute's reference to injury to 'business or property' also does not indicate extraterritorial application. If anything, by cabining RICO's private cause of action to particular kinds of injury—excluding, for example, personal injuries—Congress signaled that the civil remedy is not coextensive with § 1962's substantive prohibitions.").

[10]Thus, the language of the statute is key in determining whether the presumption against extraterritoriality has been rebutted.

b. The Focus of the Statute

[11]Absent the clear indication discussed above, a party may in certain circumstances still recover damages from outside of the United States if "the conduct relevant to the statute's focus occurred in the United States[.]" WesternGeco, 138 S. Ct. at 2137 (citing RJR Nabisco, 136 S. Ct. at 2101). This is the case "even if other conduct occurred abroad." Id. WesternGeco dealt specifically with the private ***1157** right of action for infringement contained in the Patent Act, 35 U.S.C. § 281. Id. In analyzing the statute, the Court opted to forego the first step of the extraterritorial analysis and instead contained its examination to the second step dealing with the focus of the statute.

[12]WesternGeco advises that the "focus" of a statute is the "object of its solicitude, which can include the conduct it seeks to regulate, as well as the parties and interests it seeks to protect or vindicate." Id. (citations and internal quotations omitted). "When determining the focus of a statute, we do not analyze the provision at issue in a vacuum.... If the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions. Otherwise, it would be impossible to accurately determine whether the application of the statute in the case is a 'domestic application.' " Id. (citation omitted).

[13]Discerning the focus of a statute involves an interpretation of what the legislature was concerned with when it enacted the law. See Morrison, 561 U.S. at 266, 130 S.Ct. 2869 (Section 10(b) of the Securities Exchange Act "focus[e]d ... upon purchases and sales of securities in the United States. Section 10(b) does not punish deceptive conduct, but only deceptive

conduct 'in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered.' 15 U.S.C. § 78j(b)."). The Court came to this conclusion by analyzing what the statute sought to regulate and the parties it sought to protect, as divined from the language of the statute itself. See also Kiobel v. Royal Dutch Petroleum Co., 569 U.S. 108, 126, 133 S. Ct. 1659, 1670, 185 L. Ed. 2d 671 (2013) ("We also reiterated that a cause of action falls outside the scope of the presumption—and thus is not barred by the presumption—only if the event or relationship that was 'the "focus" of congressional concern' under the relevant statute takes place within the United States.")

With the structure of this analysis and these background principles in mind, this opinion will now turn to a discussion of the two relevant federal statutes.

2. The Defend Trade Secrets Act of 2016

a. The DTSA Overcomes the Presumption Against Extraterritoriality

The Defend Trade Secrets Act of 2016, 18 U.S.C. § 1831 *et seq.* ("DTSA") became effective in May 2016. The statute amended sections of the previously enacted Economic Espionage Act of 1996, Pub. L. 104-294 ("EEA"). The EEA had criminalized the theft of trade secrets in certain contexts. The DTSA, again, which amended the EEA, created a private right of action, codified in 18 U.S.C. § 1836(b), and included other amendments to the EEA including, among others, the addition of a definition of the term "misappropriation" which mirrors that within the Uniform Trade Secrets Act. 18 U.S.C. § 1839; see Pub. L. 114-153, § 2(a), (d)(1), May 11, 2016.

In certain contexts, the fact that Congress has amended a statute sheds light on how the statute is to be interpreted. E.g., Gross v. FBL Fin. Servs., Inc., 557 U.S. 167, 174-75, 129 S. Ct. 2343, 2349, 174 L. Ed. 2d 119 (2009) ("We cannot ignore Congress' decision to amend Title VII's relevant provisions but not make similar changes to the ADEA. When Congress amends one statutory provision but not another, it is presumed to have acted intentionally."); Firstar Bank, N.A. v. Faul, 253 F.3d 982, 988 (7th Cir. 2001) ("[A] statute's longstanding meaning forms the background against which Congress legislates when it amends the law. The courts presume that Congress will use clear language if it intends to alter an established ***1158** understanding about what a law means; if Congress fails to do so, courts presume that the new statute has the same effect as the older version."); McClure v. United States, 95 F.2d 744, 750 (9th Cir. 1938), aff'd, 305 U.S. 472, 59 S. Ct. 335, 83 L. Ed. 296 (1939) ("In Conrad v. Nall, 24 Mich. 275, a section in the chapter of the Code was amended, and it was held that it was not intended to operate independently of the other provisions of the chapter, but that the whole chapter, is its present form, must be read as one act.").

On this issue, because Congress was not acting to change an existing interpretation of the EEA, but rather was creating a private right of action in the statutory chapter, the chapter amended through the DTSA should be read as a cohesive whole. In other words, Congress was not reacting to an interpretation of the EEA that it disagreed with and amending to clarify its intent on a provision. Rather, Congress was introducing a new right. This suggests to the Court that the entire chapter is to be read as intertwined, and the pronouncements cited above relating to the interpretation of non-amended provisions do not carry weight in this circumstance. Chapter 90 of the U.S. Code is made up of 18 U.S.C. §§ 1831-1839. The proper context in considering the relevant DTSA provisions is thus within Chapter 90 of the U.S. Code, not simply by reference to the provisions included in the text of the DTSA itself.

With the above in mind, a court's interpretation of a statute must begin with the plain language of the statute. Middleton v. City of Chicago, 578 F.3d 655, 658 (7th Cir. 2009) ("After all, when interpreting a statute, we must begin with its text and assume that the ordinary meaning of that language accurately expresses the legislative purpose.") (citation and internal quotations omitted). Turning then, to the statute at issue, the private right of action is codified in Section 1836 and is written as follows:

(b) Private civil actions.--

(1) In general.--An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.

18 U.S.C.A. § 1836(b). Misappropriation, as relevant, is defined within the statute as follows:

(5) the term "misappropriation" means--

(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(B) disclosure or use of a trade secret of another without express or implied consent by a person who-

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was--

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; ...

18 U.S.C.A. § 1839(5). As an initial matter, Section 1836 does not contain any explicit reference to extraterritorial conduct or application. Nor does the defined term "misappropriation." This does not end the inquiry, however, as the statute as a whole must be consulted in determining the ***1159** proper interpretation of these specific provisions.

The interpretation of Section 1837 is the cornerstone for the extraterritorial analysis of the DTSA. Section 1837 provides:

This chapter also applies to conduct occurring outside the United States if-

(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or

(2) an act in furtherance of the offense was committed in the United States.

18 U.S.C.A. § 1837. Section 1837 does provide a clear indication that the presumption against extraterritoriality has been rebutted. The question, however, is whether Section 1837 limits that rebuttal only to criminal matters—in other words, whether Section 1837 also creates an extraterritorial application of the private right of action codified in Section 1836.

This is not an easy question, particularly in the wake of RJR Nabisco's holding with respect to the distinction between extraterritorial criminal application and private application of the RICO statute. Neither the parties nor the Court have identified directly controlling precedent on this issue, which appears never to have been directly addressed by the Seventh Circuit or any others. Some district courts have assumed that Section 1836's private right of action can apply extraterritorially when reciting what conduct the DTSA regulates. These opinions do not provide any detailed analysis of the reason for assuming that Section 1837 applies to a private right of action. See Luminati Networks Ltd. v. BIScience Inc., No. 2:18-CV-00483-JRG, 2019 WL 2084426, at *9-10 (E.D. Tex. May 13, 2019) ("The DTSA 'applies to conduct occurring outside the United States if ... an act in furtherance of the offense was committed in the United States.' 18 U.S.C. § 1837(2)."); Austar Int'l Ltd. v. AustarPharma LLC, No. CV198356KMMAH, 2019 WL 6339848, at *11 (D.N.J. Nov. 27, 2019) (same); ProV Int'l Inc. v. Lucca, No. 8:19-CV-978-T-23AAS, 2019 WL 5578880, at *3 (M.D. Fla. Oct. 29, 2019) (same); MACOM Tech. Sols. Inc. v. Litrinium, Inc., No. SACV19220JVSJDEX, 2019 WL 4282906, at *4 (C.D. Cal. June 3,

2019) (same); Vendavo, Inc. v. Price f(x) AG, No. 17-CV-06930-RS, 2018 WL 1456697, at *3 (N.D. Cal. Mar. 23, 2018) (same); Micron Tech., Inc. v. United Microelectronics Corp., No. 17-CV-06932-MMC, 2019 WL 1959487, at *8 (N.D. Cal. May 2, 2019) ("Micron has a substantial interest in trying the case in the United States, as federal law provides for jurisdiction over misappropriation occurring outside the United States, see 18 U.S.C. § 1837[.]").

The Court has identified no court that has held that the DTSA does not apply extraterritorially to private rights of action. It would be ill-advised to simply join the chorus of district courts that have held, without discussion, that the private right of action applies extraterritorially. The Court will thus turn to a discussion first of Section 1837 and to the notes that Congress included in the piece of legislation passed as the DTSA.

The biggest indicator that Congress did intend for the private right of action of the DTSA to apply extraterritorially is the fact that Section 1837 refers broadly to "this chapter," which includes within it Section 1836. 18 U.S.C. § 1837 ("*This chapter* also applies to conduct occurring outside the United States if ...") (emphasis added). From this language, which Congress did not amend when it amended the chapter, the Court could draw the inference that Congress intended Section 1837 to apply to Section 1836.

Moreover, the actual law passed by Congress, Pub. L. 114-253, includes numerous ***1160** references to extraterritorial conduct that were absent in the previous versions of the statute. For example, Pub. L. 114-153 states:

It is the sense of Congress that—

(1) trade secret theft occurs in the United States and around the world;

(2) trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies;

(3) chapter 90 of title 18, United States Code (commonly known as the "Economic Espionage Act of 1996"), applies broadly to protect trade secrets from theft; and

(4) it is important when seizing information to balance the need to prevent or remedy misappropriation with the need to avoid interrupting the—

(A) business of third parties; and

(B) legitimate interests of the party accused of wrongdoing.

Pub. L. 114-153, § 5. Additionally, Pub. L. 114-153, § 4(b) contains new reporting requirements for the Attorney General, absent in either the original EEA or in an earlier amendment in 2012, requiring the Attorney General prepare reports on a biannual basis about, *inter alia*:

(1) The scope and breadth of the theft of the trade secrets of United States companies occurring outside of the United States.

(2) The extent to which theft of trade secrets occurring outside of the United States is sponsored by foreign governments, foreign instrumentalities, or foreign agents.

(3) The threat posed by theft of trade secrets occurring outside of the United States.

(4) The ability and limitations of trade secret owners to prevent the misappropriation of trade secrets outside of the United States, to enforce any judgment against foreign entities for theft of trade secrets, and to prevent imports based on theft of trade secrets overseas.

Pub. L. 114-153, § 4(b); compare with Pub. L. 104-294, Title I and Pub. L. 112-269. Taken together, it is clear that Congress was concerned with actions taking place outside of the United States in relation to the misappropriation of U.S. trade secrets when it passed the DTSA. And, again, Section 1837 applies by its terms to the "chapter" to which the private right of action was added.

On the other hand, RJR Nabisco drew a line between criminal extraterritorial application and private extraterritorial application. There, the Supreme Court found that limiting language as to what damages were available civilly (that is, only damages to business or property) distinguished the civil reach of RICO from the criminal reach, which the Court held did apply extraterritorially in certain criminal circumstances.

Here, there does not appear to be such limiting language in Section 1836, which broadly creates a private right of action. See 18 U.S.C 1836(b) ("An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.").

Section 1837, however, could be viewed as containing such limiting language. Specifically, Section 1837 provides for extraterritorial application based on qualities related to the "offender" or the "offense." Broadly, and in everyday usage, an "offender" could simply mean one who has taken unlawful action and would include a suable entity such as a corporation. Sometimes in legal terminology, however, an "offender" falls more squarely within the realm of criminal law. Black's Law Dictionary, for example, defines offender as:

> ***1161** offender (15c) *Criminal law*. Someone who has committed a crime; esp., one who has been convicted of a crime.

OFFENDER, Black's Law Dictionary (11th ed. 2019). No parallel definition within a civil context is included in Black's Law Dictionary. Similarly, the word "offense" has some criminal connotation noted:

> offense (ə-fents) (14c) 1. A violation of the law; a crime, often a minor one. — Also termed *criminal offense*. See crime. Cf. misbehavior.
>
> > "The terms 'crime,' 'offense,' and 'criminal offense' are all said to be synonymous, and ordinarily used interchangeably. 'Offense' may comprehend every crime and misdemeanor, or may be used in a specific sense as synonymous with 'felony' or with 'misdemeanor,' as the case may be, or as signifying a crime of lesser grade, or an act not indictable, but punishable summarily or by the forfeiture of a penalty." 22 C.J.S. *Criminal Law* § 3, at 4 (1989).

OFFENSE, Black's Law Dictionary (11th ed. 2019). Additionally, one could argue it is unclear whether Congress intended the interpretation of Section 1837 to remain consistent with its interpretation prior to the 2016 amendment, when Congress decided not to amend Section 1837. See Firstar Bank, N.A. v. Faul, 253 F.3d 982, 988 (7th Cir. 2001) ("a statute's longstanding meaning forms the background against which Congress legislates when it amends the law. The courts presume that Congress will use clear language if it intends to alter an established understanding about what a law means; if Congress fails to do so, courts presume that the new statute has the same effect as the older version."). On the other hand, Congress also did not amend the introductory language of Section 1837, which states that Section 1837 applies to "this chapter"—a chapter which now includes Section 1836's private cause of action. See McClure v. United States, 95 F.2d 744, 750 (9th Cir. 1938), aff'd, 305 U.S. 472, 59 S. Ct. 335, 83 L. Ed. 296 (1939).

With the above in mind, then, the Court returns to the principle question of extraterritoriality, whether Congress has given a clear indication that it intended extraterritorial application of the private cause of action of Section 1836. The clearest precedent on this issue appears to be RJR Nabisco. As referenced throughout the above, RJR Nabisco distinguished between the extraterritorial reach of the criminal provisions of RICO and the extraterritorial reach of the private right of action. RJR Nabisco, 136 S. Ct. at 2108. In addition to relying on the private right of action's limiting language with respect to damages, the Supreme Court additionally outlined concerns with extending a private right of action extraterritorially. Specifically, RJR Nabisco instructed:

> Allowing recovery for foreign injuries in a civil RICO action, including treble damages, presents the ... danger of international friction.... This is not to say that friction would necessarily result in every case, or that Congress would violate international law by permitting such suits. It is to say only that there is a potential for international controversy that militates against recognizing foreign-injury claims without clear direction from Congress. Although "a risk of conflict between the American statute and a foreign law" is not a prerequisite for applying the presumption against extraterritoriality, Morrison, 561 U.S. at 255, 130 S. Ct. 2869 where such a risk is evident, the need to enforce the

presumption is at its apex.

RJR Nabisco, 136 S. Ct. at 2107; see also id. at 2106 ("The creation of a private right of action raises issues beyond the mere consideration whether underlying primary ***1162** conduct should be allowed or not, entailing, for example, a decision to permit enforcement without the check imposed by prosecutorial discretion. Sosa v. Alvarez-Machain, 542 U.S. 692, 727, 124 S. Ct. 2739, 159 L. Ed.2d 718 (2004). Thus, as we have observed in other contexts, providing a private civil remedy for foreign conduct creates a potential for international friction beyond that presented by merely applying U.S. substantive law to that foreign conduct. See, e.g., Kiobel, 133 S. Ct. at 1665 (Each of th[e] decisions involved in defining a cause of action based on conduct within the territory of another sovereign carries with it significant foreign policy implications.") (internal quotations omitted). The Court takes very seriously RJR Nabisco's directive that "the need to enforce the presumption is at its apex" where a risk of conflict between laws is evident. This case, and certainly the DTSA, may implicate such risks.

Considering all of the above, the Court holds that although Section 1837 contains what might be construed as limiting language, the clear indication of Congress in amended Chapter 90 of Title 18 of the U.S. Code was to extend the extraterritorial provisions of Section 1837 to Section 1836, meaning Section 1836 may have extraterritorial reach subject to the restrictions in Section 1837. First, although Black's Law Dictionary attaches a criminal connotation to the words "offenders" and an "offense," these words should be construed more broadly than simply to the criminal context in light of the other language of the DTSA. Moreover, an "offense," even in the Black's Law Dictionary definition, is a "violation of the law." This encompasses a violation of a civil statute. Moreover, in practical terms, "offense" is commonly used to refer to unlawful actions that are not criminal. E.g. Sabreliner Corp. v. Int'l Bhd. of Teamsters, Local No. 600, No. 1:08CV151 SNLJ, 2009 WL 1383278, at *3 (E.D. Mo. May 14, 2009) (discussing non-criminal "offenses" within an employment policy). This broader reading of "offense" is bolstered by the other legislative statements in Pub. L. 114-153, which reference extraterritorial conduct and the need for the DTSA to address trade secret theft "wherever it occurs." Pub. L. 153.

Moreover, concerns that animated the RJR Nabisco's distinction between criminal and private action are more muted in a case involving the DTSA because Section 1837 does require a nexus to the United States before the DTSA applies extraterritoriality. The RICO private right of action, on the other hand, could have theoretically applied to solely extraterritorial conduct where the predicate acts dealt with solely extraterritorial conduct. RJR Nabisco, 136 S. Ct. at 2101 ("At least one predicate—the prohibition against 'kill[ing] a national of the United States, while such national is outside the United States'—applies only to conduct occurring outside the United States. § 2332(a).").

[14]Additionally, unlike in the RICO statute, which the Supreme Court read to be criminally extraterritorial only through principles related to the incorporation by reference of the extraterritorial predicate acts, the DTSA includes an explicit reference within the Act to its extraterritorial application. Compare with id. at 2103 ("Th[e] unique structure makes RICO the rare statute that clearly evidences extraterritorial effect despite lacking an express statement of extraterritoriality."). As RJR Nabisco instructed, "[i]t is not enough to say that a private right of action must reach abroad because the underlying law governs conduct in foreign countries. Something more is needed[.]" RJR Nabisco, 136 S. Ct. at 2108. Here, "something more" is present in the plain language of the statute because of the plain language of Section 1837—a reading which is bolstered by the broad pronouncements of ***1163** Congress of the need to protect against trade secret theft wherever it occurs.

[15]Thus, for the reasons discussed above, the Court holds that the DTSA may apply extraterritorially in a private cause of action if either of the requirements of Section 1837 are met.

b. Extraterritorial Application Is Proper in this Case under Section 1837

[16]Holding that the statute may apply extraterritorially does not end the analysis. The next question is whether this case may meet the requirement of Section 1837. Returning, then, to the language of Section 1837, the provision states:

> This chapter also applies to conduct occurring outside the United States if-
>
> (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or
>
> (2) an act in furtherance of the offense was committed in the United States.

18 U.S.C. § 1837. The parties have not directly addressed this point. The Court holds, however, that Plaintiffs have presented evidence sufficient to support a finding that an act in furtherance of the offense has been committed in the United States.

[17] [18]The offense, in the context of the DTSA private cause of action, is the misappropriation of a trade secret. This is clear through the plain language of the statute. See 18 U.S.C. § 1836(b). In briefing this motion, the parties have focused on the "acquisition" of the trade secrets as the relevant misappropriation. However, misappropriation, by its terms, is not limited to the acquisition of the secret. As courts have recognized, misappropriation can occur through any of three actions: (1) acquisition, (2) disclosure, or (3) use. E.g. Zaccari v. Apprio, Inc., 390 F. Supp. 3d 103, 112-13 (D.D.C. 2019) (the DTSA permits plaintiffs to bring private causes of action if they 'own[ ] a trade secret that is misappropriated.' 18 U.S.C. § 1836(b)(1). Misappropriated means either '(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (B) disclosure or use of a trade secret of another without express or implied consent by a person' who meets one of several conditions. 18 U.S.C. § 1839(5)(A)-(B). As some courts have put it, the DTSA thus authorizes suits alleging three theories of trade secret misappropriation: (1) acquisition, (2) disclosure, and (3) use. See, e.g., AUA Private Equity Partners, LLC v. Soto, Civil No. 1:17-8035-GHW, 2018 WL 1684339, at *4 (S.D.N.Y. Apr. 5, 2018); Camick v. Holladay, 758 F. App'x 640, 645 (10th Cir. 2018).").

Plaintiffs have argued that the acquisition of the trade secrets took place in the United States because, *inter alia*, the information was stored on servers that are housed in the United States and were accessible from its headquarters in Illinois. The Court need not reach the merits of this argument in this context, however, because it is clear from the record that even if this constitutes acquisition within the United States, any acquisition took place before the effective date of the DTSA.

Specifically, the "effective date" provision in the DTSA states:

> The amendments made by this section shall apply with respect to any misappropriation of a trade secret (as defined in section 1839 of title 18, United States Code, as amended by this section) for which any act occurs on or after the date of the enactment of this Act.

Pub. L.114-153, May 11, 2016 (18 U.S.C. § 1833 Note). From the undisputed evidence presented during the trial, it is clear ***1164** that any improper acquisition of the alleged trade secrets occurred before the effective date of the DTSA.

[19]However, as noted above, misappropriation can also be premised on a theory of "disclosure" or "use." 18 U.S.C.A. § 1839(5). "Use" is not defined in the DTSA, but has been interpreted by other courts applying similarly-defined state law. The Fifth Circuit, for example, has analyzed what constitutes "use" for purposes of Texas trade secret law, which contains an element of "use." Gen. Universal Sys., Inc. v. HAL, Inc., 500 F.3d 444, 450 (5th Cir. 2007). There, the court pointed to the definition of "use" in the Restatement (Third) of Unfair Competition, which reads:

> As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a "use" under this Section. Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret (see § 42, Comment f) all constitute "use."

Restatement (Third) of Unfair Competition § 40, cmt. c (1995). The Seventh Circuit has not explicitly adopted this this definition of "use," but has cited to this section of the Restatement approvingly. Salton, Inc. v. Philips Domestic Appliances & Pers. Care B.V., 391 F.3d 871, 878 (7th Cir. 2004). One other court in this district has considered the definition of "use" when interpreting the ITSA, which has an identical definition of "misappropriation" as the DTSA. Cognis Corp. v. CHEMCENTRAL Corp., 430 F. Supp. 2d 806, 812 (N.D. Ill. 2006). There, the court wrote:

> The Seventh Circuit and the Illinois state courts also do not define what it means to "use" a trade secret ... However, Illinois courts have noted that:
>
> > ... The idea of "use" as embodied in this language indicates that the third party's actions have to be improper and damage the owner of the secret to some extent. This suggests that "use" is a very broad concept. Such a construction is consistent with the Restatement (Third) of Unfair Competition, which is often relied on by the Seventh Circuit in analyzing trade secret claims. See, for example, Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 728 (7th Cir. 2003) (relying on the Restatement (Third) of Unfair Competition and the Uniform Trade Secret Act to determine the criteria for trade secret protection); Salton, 391 F.3d at 878 (relying on the same to determine the scope of legal protection of trade secrets); see also Peaceable Planet, Inc. v. TY, Inc., 362 F.3d 986, 989 (7th Cir. 2004). The Restatement states:
> >
> > > There are no technical limitations on the nature of the conduct that constitutes "use" of a trade secret... As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a "use" ... Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret ... all constitute "use." The nature of the unauthorized use, however, is relevant in determining appropriate relief. [Restatement (Third) of Unfair Competition, § 40 cmt. c (1995)].

***1165** The Court agrees that "use" should be interpreted consistently with the above. For example, "marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret ... all constitute use." Id.

The question under Section 1837, then, becomes whether "an act in furtherance" of the "use" of the alleged trade secrets has occurred in the United States. The statute does not define what constitutes "an act in furtherance of the offense." In Luminati, 2019 WL 2084426, at *9, a Texas district court case analyzing Section 1837 wrote, "this language is not foreign to the common law but is regularly used in the area of federal conspiracy law." Id. (citing Yates v. United States, 354 U.S. 298, 334, 77 S.Ct. 1064, 1 L.Ed.2d 1356 (1957) ("[T]he overt act must be found ... to have been in furtherance of a conspiracy...."); Findlay v. McAllister, 113 U.S. 104, 114, 5 S.Ct. 401, 28 L.Ed. 930 (1885) ("[T]o sustain the action it must be shown not only that there was a conspiracy, but that there were tortious acts in furtherance of it....").

[20]"[W]here Congress borrows terms of art in which are accumulated the legal tradition and meaning of centuries of practice, it presumably knows and adopts ... the meaning its use will convey to the judicial mind unless otherwise instructed." Morissette v. United States, 342 U.S. 246, 263, 72 S.Ct. 240, 96 L.Ed. 288 (1952). As a result, as did the Luminati court, this Court looks to the established common law meaning of "in furtherance of" when interpreting the extraterritoriality provision of the DTSA. 18 U.S.C. § 1837(2). In this respect, the Court agrees with Luminati's analysis on this point:

> Applied to the DTSA, Yates makes clear that the act in furtherance of the offense of trade secret misappropriation need not be the offense itself or any element of the offense, but it must "manifest that the [offense] is at work" and is not simply "a project in the minds of the" offenders or a "fully completed operation." [Yates, 354 U.S. at 334, 77 S.Ct. 1064.] Put another way, an act that occurs before the operation is underway or after it is fully completed is not an act "in furtherance of" the offense.

2019 WL 2084426, at * 10. Thus, if Plaintiffs have shown that Defendants have taken actions that "manifest that the offense is at work"—the offense being the misappropriation—then Section 1837 has been satisfied and the chapter also applies to acts occurring outside the United States.

Plaintiffs have introduced evidence in this case sufficient to support a finding that "use" of the alleged trade secrets has occurred domestically. Specifically, it has been undisputed throughout trial that Defendants have advertised, promoted, and marketed products embodying the allegedly stolen trade secrets domestically at numerous trade shows. This constitutes "use." See Gen. Universal Sys., Inc. v. HAL, Inc., 500 F.3d 444, 450 (5th Cir. 2007) (relying on the Restatement (Third) of Unfair Competition, § 40 cmt. c (1995)); Cognis Corp. v. CHEMCENTRAL Corp., 430 F. Supp. 2d 806, 812 (N.D. Ill. 2006) (same).

An additional point must be discussed now in the interest of completeness. The fact that the "use" in this case started before the DTSA was enacted is not a barrier for Plaintiffs. Nothing suggests that the DTSA forecloses a use-based theory simply because the trade secret being used was acquired or used before the DTSA's enactment. In this regard, the Court agrees with two other district courts ***1166** that have noted that Congress omitted from the DTSA language included in Section 11 of the Uniform Trade Secret Act. That UTS A language states, "[w]ith respect to a continuing misappropriation that began prior to the effective date, the [Act] also does not apply to the continuing misappropriation that occurs after the effective date.' " Cave Consulting Grp., Inc. v. Truven Health Analytics Inc., No. 15-CV-02177-SI, 2017 WL 1436044, at *4 (N.D. Cal. Apr. 24, 2017); Adams Arms, LLC v. Unified Weapon Sys., Inc., 16-1503, 2016 WL 5391394, at *6 (M.D. Fla. Sept. 27, 2016) (quoting Unif. Trade Secrets Act, § 11).

The omission of this language suggests that the DTSA applies to a "use"- based private cause of action even if the acquisition occurred before effective date of the statute or if the use began before the effective date. Indeed, the plain language of the "effective date" provision of Pub. L. 114-153 further supports this interpretation. Pub. L.114-153, May 11, 2016 (18 U.S.C. § 1833 Note) ("The amendments made by this section shall apply with respect to any misappropriation of a trade secret ... for which any act occurs on or after the date of the enactment of this Act."). This broad language, coupled with the omission of the provision in the Uniform Trade Secret Act limiting such recovery, support the position that "use" in this case occurring after effective date serve as a proper basis for this action.

Finally, although Plaintiffs have briefly argued that they are entitled to research and development costs stretching back into the past prior to the effective date of the DTSA, Plaintiffs have failed to sufficiently support or explain this position. However, unjust enrichment may be recovered after the law came into effect if Plaintiffs can show such unjust enrichment. 18 U.S.C. § 1836(b)(3)(B)(II).

In summation, the Court holds that the DTSA may apply extraterritorially in this case because the requirement of Section 1837(b)(2) has been met. Plaintiffs thus may argue for extraterritorial damages resulting from the misappropriation, but only those damages that occurred after the effective date of the statute—May 11, 2016.

c. Alternatively, This Case Nonetheless Consists of a Permissible Domestic Application of the DTSA.

[21]Even if the DTSA private right of action did not have extraterritorial reach, this case would still present a proper domestic application of the statute. As stated above, if no clear, affirmative indication exists, the statute is not extraterritorial and the court proceeds to a second step of the extraterritoriality analysis, in which it determines whether the case involves "a domestic application of the statute." RJR Nabisco, Inc. v. European Cmty., — U.S. ——, 136 S. Ct. 2090, 2101, 195 L. Ed. 2d 476 (2016). This determination is made first by finding the statute's focus. "If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an impermissible extraterritorial application regardless of any other conduct that occurred in U.S. territory." Id.

The parties argue from the basic premise that focus of the DTSA is on "misappropriation." See Dkt. 774 at 10; Dkt. 806 at 13-14. "When determining the focus of a statute, we do not analyze the provision at issue in a vacuum." WesternGeco, 138 S. Ct. at 2137. "If the statutory provision at issue works in tandem with other provisions, it must be assessed in concert with those other provisions. Otherwise, it would be impossible to accurately determine ***1167** whether the application of the statute in the case is a 'domestic application.' " Id.

WesternGeco advises that the "focus" of a statute is the "object of its solicitude, which can include the conduct it seeks to regulate, as well as the parties and interests it seeks to protect or vindicate." Id. (citations and internal quotations omitted). Discerning the focus of a statute involves an interpretation of what the legislature was concerned with when it enacted the law. See Morrison, 561 U.S. at 266, 130 S.Ct. 2869. This is divined from the language of the statute itself. See Kiobel v. Royal Dutch Petroleum Co., 569 U.S. 108, 126, 133 S. Ct. 1659, 1670, 185 L. Ed. 2d 671 (2013) ("We also reiterated that a cause of action falls outside the scope of the presumption—and thus is not barred by the presumption—only if the event or relationship that was 'the "focus" of congressional concern' under the relevant statute takes place within the United States.").

With respect to the DTSA, the Court finds that the focus of the statute is on the misappropriation of a trade secret. Specifically, Section 1836, as discussed at length above, fashions the private right of action around misappropriation and provides a civil remedy for the owner of that trade secret. 18 U.S.C. § 1836 ("An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce."). Additionally, both the "owner" and what constitutes "misappropriation" are defined in Section 1839. Indeed, the title of the chapter of the U.S. Code in which the DTSA was implemented is entitled "Protection of Trade Secrets" and the language in Pub. 114-153 further supports the conclusion that the statute is focused on misappropriation.

Thus, the focus of the DTSA is on creating a remedy for a trade secret's owner for misappropriation, and misappropriation can take place through "use." Therefore, "[i]f the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application even if other conduct occurred abroad[.]" RJR Nabisco, 136 S. Ct. at 2101. In other words, if the relevant misappropriation of the alleged trade secrets occurred domestically, then this case involves a permissible domestic application of the statute.

In the present case, Plaintiffs have provided evidence that "use" of the alleged trade secrets has occurred domestically. The tricky issue, however, is what damages would be proper under a use-based theory under this second step of the extraterritorial analysis. Because the Court has found that the statute applies extraterritorially, however, it is unnecessary to attempt to discern what damages in this alternative context would be proper.

3. The Copyright Act

[22]The parties have provided considerably less argument with respect to damages under the Copyright Act, 17 U.S.C. §§ 106, 501 *et seq.* Dkt. 774 at 11-12 (Plaintiffs' argument); Dkt. 758 at 2 & Dkt. 806 at 14-15 (Defendants' argument). Defendants have pointed to clear pronouncements from the Supreme Court indicating that the Copyright Act has no extraterritorial application. Impression Products, Inc. v. Lexmark International, Inc., ––– U.S. ––––, 137 S. Ct. 1523, 1528, 198 L.Ed.2d 1, (2017) ("The territorial limit on patent rights is no basis for distinguishing copyright protections; those do not have extraterritorial effect either."); id. at 1536-37 ("The territorial limit on patent rights is, however, no basis for distinguishing copyright protections; those protections 'do not have any extraterritorial operation' either. ***1168** 5 M. Nimmer & D. Nimmer, Copyright § 17.02, p. 17-26 (2017).")

[23]Plaintiffs agree that the Copyright Act does not have extraterritorial application but argue this lack of extraterritoriality does not foreclose recovering foreign profits. Dkt. 774 at 11. To support this claim, Plaintiffs cite to Tire Eng'g & Distribution, LLC v. Shandong Linglong Rubber Co., 682 F.3d 292, 307 (4th Cir. 2012) ("Shandong"). In Shandong, the Fourth Circuit outlined "the predicate-act" doctrine. Id. In essence, the doctrine states that "[o]nce a plaintiff demonstrates a domestic violation of the Copyright Act, ... it may collect damages from foreign violations that are directly linked to the U.S. infringement." Id. The Fourth Circuit noted that the Second Circuit, Ninth Circuit, Sixth Circuit, and the Federal Circuit have adopted this doctrine. Id. (citing Update Art, Inc. v. Modiin Pub., Ltd., 843 F.2d 67, 73 (2d

Cir. 1988); Los Angeles News Serv. v. Reuters Television Int'l, Ltd., 149 F.3d 987, 992 (9th Cir. 1998), as amended on denial of reh'g and reh'g en banc (Aug. 25, 1998); Liberty Toy Co. v. Fred Silber Co., 149 F.3d 1183 (6th Cir. 1998) (unpublished); Litecubes, LLC v. N. Light Prod., Inc., 523 F.3d 1353, 1370 (Fed. Cir. 2008).

The thrust of this doctrine is that if an infringing act occurred within the United States, then the plaintiff may recover for foreign violations that are directly linked to the domestic infringement. Although not explicitly adopted by the Seventh Circuit, the Court agrees with the analysis by these five other Circuit Courts. Although Defendants argue that modem extraterritorial jurisprudence displaces the predicate-act doctrine, the Court disagrees, and the predicate-act doctrine holds similarities to the Supreme Court's recent analysis in WesternGeco. WesternGeco, 138 S. Ct. at 2137.

Thus, the Court holds that Plaintiffs are entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by Defendants. Given the undeveloped nature of the arguments on this point, the Court will not throw itself into the bramblebush and analyze whether Defendants have shown that no such act has occurred. The burden is on the movant to make its point in this regard and Defendants' roughly three paragraphs of argument have not met this burden.

B. Misappropriation under the Illinois Trade Secret Act

[24] [25]This opinion now turns to Plaintiffs' claim under Illinois Trade Secret Act, 765 ILCS 1065/1 *et seq.* ("ITS A"). As an initial matter, principles surrounding the interpretation of whether an Illinois statute applies extraterritorially are similar to those in the federal context. "Our past decisions have established the rule that when a statute ... is silent as to extraterritorial effect, there is a presumption that it has none." Graham v. Gen. U.S. Grant Post No. 2665, V. F. W., 43 Ill. 2d 1, 6, 248 N.E.2d 657, 660 (1969). An Illinois statute "should not be given extraterritorial effect [if] it does not clearly appear therefrom that such was the intention of the legislature." Butler v. Wittland, 18 Ill. App. 2d 578, 583, 153 N.E.2d 106, 109 (Ill. App. Ct. 1958).

[26]With respect to the ITSA, the Court has located no controlling precedent as to the statute's extraterritorial application. Aside from one provision within the ITSA, the statute is silent as to geographic reach. That one provision, Section 1065/8(b)(1), reads as follows:

> (b) This Act does not affect:
>
> (1) contractual remedies, whether or not based upon misappropriation of a trade secret, provided however, that a contractual or other duty to maintain secrecy or limit use of a trade secret ***1169** shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty[.]

765 Ill.Comp. Stat. Ann. 1065/8. Plaintiffs argue that this provision indicates extraterritorial reach for the ITSA. At least one case from the Northern District of Illinois supports this reading. In Miller UK Ltd. v. Caterpillar Inc., a court considered the extraterritorial reach of the ITSA:

> Avery [v. State Farm Mut. Auto. Ins. Co.] invoked the general rule of statutory construction under Illinois law that denies extraterritorial effect to a statute unless its language appears to provide for such application. [216 Ill.2d 100, 296 Ill.Dec. 448] 835 N.E.2d [801] at 852. Avery interpreted the Illinois Consumer Fraud Act, 815 ILCS 505, and its construction of the intended scope of that statute found significance in a provision that defined its coverage to include "any trade or commerce directly or indirectly affecting the people of this State." 296 Ill.Dec. 448, 835 N.E.2d at 850 (citing 815 ILCS 505/1(f)). ITSA contains no similar language and Caterpillar cites no precedent construing it to have any geographic limitation. In contrast to the consumer fraud statute at issue in Avery, ITSA's "Legislative intent" provision states that "a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty." 765 ILCS 1065/8(b)(1). It is thus

> apparent that ITSA not only lacks a geographic limitation, it authorizes broad geographic application for purposes of trade secret protection that would be invalid in other contexts. Caterpillar's duty to avoid misappropriation of Miller's trade secrets cannot be considered unenforceable merely because some of its employees and Miller were located beyond the borders of Illinois.

Miller UK Ltd. v. Caterpillar Inc., No. 10-CV-03770, 2017 WL 1196963, at *7 (N.D. Ill. Mar. 31, 2017). In coming to the conclusion that "[i]t is thus apparent that ITSA not only lacks a geographic limitation, it authorizes broad geographic application for purposes of trade secret protection that would be invalid in other contexts[,]" id., it appears to this Court that the Miller court drew an inference that the lack of limiting language supported the extraterritorial application of the statute. The question is not whether the ITSA contains language limiting the statute to Illinois, but whether extraterritoriality "clearly appear[s]" within the text of the statute. Butler, 18 Ill. App. 2d at 583, 153 N.E.2d 106.

As to that question, the Miller court found Section 1065/8 to contain such a clear indication. This Court disagrees. By its terms, Section 1065/8 clarifies that a duty to maintain secrecy, such as that in a restrictive covenant, should not be invalidated because of the lack of "lack of durational or geographical limitation on the duty[.]" The fact that Section 1065/8 twice references contractual duties supports this reading. Moreover, as Defendants point out, Dkt. 806 at 9, the Miller reading would create internal conflict within the statute because Section 765 ILCS 1065/7 expressly does set a durational limit for bringing actions under the statute. See 765 ILCS 1065/7 ("An action for misappropriation must be brought within 5 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this Act, a continuing misappropriation constitutes a single claim.").

[27] [28]If Section 1065/8 was read broadly to remove durational and geographic limits on ITSA claims, one of the "durational" provisions would be rendered superfluous. "A fundamental principle of ***1170** statutory construction is to view all provisions of a statutory enactment as a whole. Accordingly, words and phrases should not be construed in isolation, but must be interpreted in light of other relevant provisions of the statute." DeLuna v. Burciaga, 223 Ill. 2d 49, 60, 306 Ill.Dec. 136, 857 N.E.2d 229, 236 (2006). Moreover, courts should not adopt strained readings that render one aspect of a statute superfluous. Panarese v. Hosty, 104 Ill. App. 3d 627, 628-29, 60 Ill.Dec. 434, 432 N.E.2d 1333, 1335 (1982) ("It is a general rule of construction that where a statute can be reasonably interpreted so as to give effect to all its provisions, a court will not adopt a strained reading which renders one part superfluous. Jarecki v. G. D. Searle & Co., 367 U.S. 303, 81 S. Ct. 1579, 6 L. Ed.2d 859 (1961))".

Finally, this reading of Section 1065/8 is consistent with the Seventh Circuit's application of Section 1065/8 in PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1272 n.10 (7th Cir. 1995). There, the court, citing to Section 1065/8(b)(1), wrote that "[t]he confidentiality agreement is also not invalid for want of a time limitation." Id.; see also Coady v. Harpo, Inc., 308 Ill. App. 3d 153, 161, 241 Ill.Dec. 383, 719 N.E.2d 244, 250 (1999) ("The reasonableness of some types of restrictive covenants, such as nonsolicitation agreements, also is evaluated by the time limitation and geographical scope stated in the covenant.... However, a confidentiality agreement will not be deemed unenforceable for lack of durational or geographic limitations where trade secrets and confidential information are involved.") (citations omitted).

In sum, the Court agrees with Defendants that the statutory language contained in Section 1065/8(b)(1) does not clearly express an intent by the legislature for extraterritorial reach of the ITSA. The clearer reading of the provision is that the legislature was concerned with courts' analysis of the reasonableness of restrictive covenants and sought to clarify that duties arising from such covenants should not be held to be unenforceable due to a lack of a geographic or temporal limitation. Thus, the Court holds that the ITSA does not have extraterritorial reach.

IT IS SO ORDERED.

All Citations

436 F.Supp.3d 1150

Footnotes

1 See Morrison v. National Australia Bank Ltd., 561 U.S. 247, 130 S. Ct. 2869, 177 L. Ed.2d 535 (2010) and Kiobel v. Royal Dutch Petroleum Co., 569 U.S. 108, 133 S. Ct. 1659, 185 L. Ed. 2d 671 (2013).

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2021 WL 1978342
Only the Westlaw citation is currently available.
United States District Court, N.D. Illinois, Eastern Division.

INVENTUS POWER, INC. and ICC Electronics (Dongguan) Ltd., Plaintiffs,
v.
SHENZHEN ACE BATTERY CO., LTD., Defendant.

Case No. 20-cv-3375
|
Signed 05/18/2021

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MEMORANDUM OPINION AND ORDER

Robert M. Dow, Jr., United States District Judge

***1** Plaintiffs Inventus Power, Inc. ("Inventus") and ICC Electronics (Dongguan) Ltd. ("ICC") (together, "Plaintiffs") bring suit against Defendant Shenzhen Ace Battery Co., Ltd. ("ACE" or "Defendant") for trade secret misappropriation under the Defend Trade Secrets Act, 18 U.S.C. §§ 1836(b), 1839 *et seq.* ("DTSA"), and the Illinois Trade Secrets Act, 765 ILCS 1065 *et seq.* ("ITSA"). Currently before the Court is Defendant's motion to dismiss based on forum *non conveniens* [136]. For the following reasons, Defendants' motion [136] is denied.

I. Background

Defendant first raised its jurisdictional and venue challenges in opposition to Plaintiffs' motion for a temporary restraining order ("TRO"). At that point, Defendant had not formally moved to dismiss the complaint and provided minimal briefing or evidence to support its arguments. In its opinion granting a TRO [48], the Court determined that Plaintiffs were likely to succeed on the merits of their action and establish personal jurisdiction over Defendants and proper venue in this District. See *id.* at 7-13. Knowledge of the Court's prior opinion is assumed here, and the Court refers the parties to that opinion for background on the complaint's allegations, *id.* at 1-6.

II. Legal Standard

Venue is proper in "a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred" or "if there is no district in which an action may otherwise be brought ... any judicial district in which any defendant is subject to the court's personal jurisdiction." 28 U.S.C. § 1391(b). In this case, this judicial district is where Inventus is headquartered, where it originated the trade secrets at the heart of this action, and where it allegedly suffered harm as a result of Defendant's actions. Venue is therefore proper in this District.

Even where venue has been established, however, "[t]he doctrine of forum *non conveniens* allows a federal court to dismiss a claim when a foreign jurisdiction would provide a more convenient forum to adjudicate the matter, and dismissal would serve the ends of justice." *Maui Jim, Inc. v. SmartBuy Guru Enterprises*, 386 F. Supp. 3d 926, 949 (N.D. Ill. 2019). The doctrine "is an exceptional one that a court must use sparingly." *Deb v. SIRVA, Inc.*, 832 F.3d 800, 805 (7th Cir. 2016). "[U]nless the balance is strongly in favor of the defendant, the plaintiff's choice of forum should rarely be disturbed." *Id.* at 806 (internal quotation marks and citation omitted). A defendant's "burden in alleging forum *non conveniens* ... is heavy." *Id.* at 810. It must "submit evidence of an adequate and alternate forum," such as expert affidavits. *Id.* at 810, 812. The Court may also condition dismissal of the complaint on the defendant's concession to jurisdiction in the alternative forum, or otherwise "impose conditions if there is a justifiable reason to doubt that a party will cooperate with the foreign forum." *Id.* at 812.

"A court considering a *forum non conveniens* motion weighs 'a variety of relevant factors,' many of which are 'case-specific'; there is no 'formula for weighing [the factors] precisely.' " *Greene v. Mizuho Bank, Ltd.*, 206 F. Supp. 3d 1362, 1379 (N.D. Ill. 2016). In general, the Court must first "determine if an alternative and adequate forum is available and then go on to balance the interests of the various participants," as well as the public. *Deb*, 832 F.3d at 807. "We start with the availability of the forum because, '[a]s a practical matter, it makes little sense to broach the subject of forum *non conveniens* unless an adequate alternative forum is available to hear the case.' " *Id.* (quoting *Kamel v. Hill–Rom Co.*, 108 F.3d 799, 802 (7th Cir. 1997)). "The availability of the forum is really a two-part inquiry involving availability and adequacy." *Id.* A proposed alternative forum is "available" if " 'all parties are amenable to process and are within the forum's jurisdiction.' " *Fischer v. Magyar Allamvasutak Zrt.*, 777 F.3d 847, 867 (7th Cir. 2015) (quoting *Kamel*, 108 F.3d at 803). The forum is "adequate" if "the parties will not be deprived of all remedies or treated unfairly." *Id.*; see also *Deb*, 832 F.3d at 807 ("Adequacy only comes into play to the extent that the remedy would be so inadequate that for all intents and purposes the forum is not available."). "A court may dismiss on forum *non conveniens* grounds even though the foreign forum does not provide the same range of remedies as are available in the home forum." *Kamel*, 108 F.3d at 799. "However, the alternative forum must provide some potential avenue for redress." *Id.*

***2** After determining that an alternative forum is available and adequate, the Court must weigh "both the convenience of the forum to the parties and witnesses (private interest considerations) and various public interest considerations." *Pomerantz v. Int'l Hotel Co.*, 359 F. Supp. 3d 570, 580 (N.D. Ill. 2019); see also *Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 241 (1981). "As a general rule, a plaintiff's choice of forum should be disturbed only if the balance of public and private interest factors strongly favors the defendant." *Clerides v. Boeing Co.*, 534 F.3d 623, 628 (7th Cir. 2008). The private interest factors include: "(1) the relative ease of access to sources of proof; (2) availability of compulsory process for attendance of unwilling, and (3) the cost of obtaining attendance of willing, witnesses; (4) possibility of view of premises, if view would be appropriate to the action; and (5) all other practical problems that make trial of a case easy, expeditious and inexpensive." *Maui Jim*, 386 F. Supp. 3d at 950. "The public interest factors to consider are (1) the administrative difficulties stemming from court congestion; (2) the local interest in having localized disputes decided at home; (3) the interest in having the trial of a diversity case in a forum that is at home with the law that must govern the action; (4) the avoidance of unnecessary problems in conflicts of laws or in the application of foreign law; and (5) the unfairness of burdening citizens in an unrelated forum with jury duty." *Id.*

III. Analysis

A. Availability and Adequacy

The Court cannot say based on the submissions before it that China is an available and adequate forum for litigating the parties' dispute; nor has Defendant shown that the balance of public and private interest factors strongly favors it. Defendant has therefore failed in its "heavy" burden and its motion to dismiss must be denied. *Deb*, 832 F.3d at 810.

In its memorandum in support of the motion to dismiss, see [65], the only evidence Defendant provides as to the availability and adequacy of China as a forum is citation to general provisions of the Civil Procedure Law of the People's Republic of China, see *id.* at 8, and a handful of cases. See *id.* at 7-10. Defendant provided no affidavit or expert testimony explaining the Civil Procedure Law's significance and practical operation; nor did Defendant agree to consent to suit in any particular venue. According to Defendant, these provisions give the court in Defendant's domicile jurisdiction over Defendant (Article 21) and authorize ICC, as a Chinese corporation, to bring suit against Defendant (Articles 2, 3, 48). See *id.* at 8. Further, "foreign enterprises and organizations which institute or respond to actions in the people's courts [are given] equal procedural rights and obligations' as domestic parties." *Id.* (Article 5).

Defendant's citation to Chinese procedural law, without explanation or support from a Chinese law expert or other qualified affiant, are insufficient to establish that China is an available and adequate forum under the particular facts of this case. "It is not enough to assert baldly that the proposed transferee forum is adequate." *Luxottica Grp. S.p.A. v. Zhao*, 2017 WL 1036576, at *2 (N.D. Ill. Mar. 17, 2017). Defendant's citation to case law does little, if anything, to strengthen its case, beyond indicating as a general proposition that, in some cases, China could be an available and adequate forum. In *Sinochem Int'l Co. v. Malay. Int'l Shipping Corp.*, 549 U.S. 422 (2007)**,** the Supreme Court granted certiorari "to resolve a conflict among the Circuits on whether *forum non conveniens* can be decided prior to matters of jurisdiction." *Id.* at 428-29. There, a Malaysian shipping company brought suit against a Chinese importer alleging fraudulent misrepresentation in connection with the shipment of steel coils. *Id.* at 428. The district court concluded that it lacked personal jurisdiction over Sinochem under Pennsylvania's long-arm statute. *Id.* at 427. Instead of ordering limited discovery, which might end up supporting jurisdiction under Federal Rule of Civil Procedure 4(k)(2), the district court determined that the case could be adjudicated adequately and more conveniently in the Chinese courts and dismissed it on forum *non conveniens* grounds. On review, the Supreme Court held that the district court was not required to first establish its own jurisdiction before dismissing the suit on grounds of forum *non conveniens.*

***3** *Sinochem* offered no opinion on the adequacy of China as a forum generally; it merely recognized that the district court had found the forum adequate. Further, in *Sinochem*, there were already "long-launched" pending legal proceedings in China—and therefore no question whether the parties would, in fact, be able to litigate in China. 549 U.S. at 428, 435. Further, "[n]o significant interests of the United States were involved ..., and while the cargo had been loaded in Philadelphia, the nub of the controversy was entirely foreign: The dispute centered on the arrest of a foreign ship in foreign waters pursuant to the order of a foreign court." *Id.*; see also *id.* at 435-36 (the "gravamen" of plaintiff's complaint was "misrepresentations to the Guangzhou Admiralty Court in the course of securing arrest of the vessel in China"). For those reasons, the Court concluded that it was a "textbook case for immediate *forum non conveniens* dismissal." 549 U.S. at 436.

In this case, by contrast, Plaintiff Inventus is an American corporation headquartered in this District and has presented evidence that Defendant's "alleged misappropriation was allegedly knowingly directed to materials that originated from and are located at Inventus in this District." [48] at 10. As the Court explained in its opinion granting a TRO, "Plaintiff presents evidence (including a forensic analysis and declarations) that ACE employees, while working for Plaintiff and for the purpose of aiding Defendant, downloaded *en masse* volumes of documents that originated at Inventus's facilities in this District, and were either placed on a shared network drive accessed by the employees or emailed to them, at their request." *Id.* The evidence included detailed declarations from Tom Nguyen ("Nguyen"), Inventus' VP of Business Development, about information shared with individuals who left Inventus for ACE. See *id.* at 11. "Nguyen opines that these employees knew that the trade secret materials were developed in Woodridge, Illinois based on their frequent interactions with Nguyen's team, their frequent requests for highly confidential information from the Woodridge team, and because a large number of the relevant documents are marked as originating from 'Woodridge, IL.' " *Id.*

Defendant also cites a handful of cases that cite *Sinochem* and find China to be an adequate alternative forum. Defendant claims that "[b]ased on the facts that numerous courts have previously found China to be an adequate alternative for forum *non conveniens* purposes, a Chinese court is an adequate alternative forum for the purposes of litigating the tort claims." [136] at 10. But each of the cases cited by Defendant was decided on its own unique facts and record. They do not provide an adequate basis on which to conclude that China would be an adequate forum in *this* case.

In response to Defendant's motion to dismiss, Plaintiffs emphasize Defendant's failure to provide any evidence to support its conclusion that China is an available and adequate forum. Plaintiffs also provide a declaration from an expert in Chinese law, Jianwei (Jerry) Fang. See [81-3]. Mr. Fang is an attorney at a law firm in China. He is a member of the PRC bar and the New York State Bar and has been qualified to practice law in China for over 15 years. See *id.* at 4-5. Mr. Fang explains why, in his opinion, China is not currently available as an alternative forum and a Chinese court would not be able to provide Plaintiffs with the relief they seek here, including a worldwide injunction; the details of his opinion are discussed below.

With its reply brief, Defendant provides a declaration from its own expert, Nick Liu, a former judge and senior partner at a law firm in Beijing, working in the areas of IP law, unfair competition law, and dispute resolution. Mr. Liu opines that China is an available and adequate forum for Plaintiffs' lawsuit. Since Defendant did not offer Mr. Liu's declaration until its reply, Plaintiffs have not had a chance to respond and Mr. Liu's opinions have never been "subject to an adversarial process in which the parties had an opportunity to argue about their meaning and import." *Deb*, 832 F.3d at 814. The Court could order Plaintiffs to file a sur-reply, or find that Defendant waived arguments that it raised for the first time in reply. See *Tata Int'l Metals, (Americas) Ltd. v. Kurt Orban Partners, LLC*, 482 F. Supp. 3d 737, 751 n.3 (N.D. Ill. 2020) ("arguments raised for the first time in a reply brief are waived”). The Court concludes that neither course is necessary, however, because Defendant and Mr. Liu have not alleviated several of the concerns that Plaintiffs and Mr. Fang identified with dismissing this lawsuit in favor of a forum in China.

***4** As a general matter, there appears to be no serious dispute between the parties' experts that China is an “available” forum in the sense that the parties are (or at least may be) amenable to process and within the Chinese courts' jurisdiction. However, Plaintiffs have made a persuasive showing that China is “presently unavailable.” As an initial matter, Plaintiffs point out that although Defendant allegedly filed a lawsuit against Inventus for “unfair competition” in “local court of Shenzhen City” in China, Inventus (at the time of briefing) had not received any confirmation that the Chinese courts had accepted the case. See [82] at 9, n.1 (citing [32-1] at 6, ¶ 21). This gives the Court pause, as it suggests the courts in Defendant's domicile may not be as available as Defendant claims, or at least for lawsuits concerning a U.S.-based plaintiff injured in the United States. By contrast, this case has already been pending for nearly a year and the parties have made substantial inroads on discovery and other issues. To the extent that any action in China has gone forward, the parties should have advised the Court of its status.

Regardless, Defendant has not sufficiently rebutted Plaintiffs' showing that China is “presently unavailable” as an alternative forum due to travel restrictions imposed to control the COVID-19 pandemic. See [82] at 9. Defendants do not dispute that U.S.-based witnesses cannot travel to China due to the COVID-19 travel ban. More particularly, Mr. Fang explains that unless for an emergency—which would not include a trial—all valid Chinese visas and residence permit entries held by foreigners have been suspended and revoked since March 28, 2020. [81-3] at 5-6. Also, there is no way for any U.S.-based witnesses to obtain a visa at this time. *Id.* at 6. At the time Plaintiffs filed their brief, there was no indication of when the policy would terminate. The Court's own research indicates that China recently loosened travel restrictions for U.S. passengers who are vaccinated with American-made vaccines; however, the parties have not briefed the issue and it is unclear how any policy changes in China would affect this particular case.

Plaintiffs explain that two of their key witnesses—Nguyen and Nou Ma (“Ma”), Inventus's Chief Human Resources Officer—are based in Woodridge, Illinois and therefore will be unable to travel to China. See [82] at 9. Defendant disputes that Nguyen's or Ma's testimony would be necessary at trial and argues, alternatively, that the two witnesses would be allowed to testify by video instead of in person. Plaintiffs have made a convincing showing that Nguyen's and Ma's testimony would likely be required at trial. Plaintiffs indicated in their initial disclosures that they intend to rely on these witness to testify about the development of Inventus' trade secrets, the former ACE employees' scope of work, and their access to and use of Inventus' trade secrets. See [81] at 16.

In addition, Defendant fails to demonstrate that video testimony is a viable work-around in this case. The Chinese law that Mr. Liu says authorizes video testimony requires both (1) the consent of all parties; and (2) permission from the court. See [84-2] at 5 & n.6 (citing Article 259 of the Interpretation of Civil Procedure Law of P.R.C.). As far as the Court is aware, Defendant has not consented to Plaintiff's use of video at a trial or during other legal proceedings in China. Even if Defendant provided consent, however, Mr. Fang's unrebutted testimony is that in a case of this complexity, a court would be unlikely to grant permission to hold a trial or hearing via video conference. Based on Mr. Fang's experience and “legal research regarding public judgements on trade secret cases issued by courts in the Guangdong Province (where AcePower and ICC are located), no alternative forms of witness testimony, *e.g.*, testimony via written submission of statements or live remote video without attending trials in person, has been admitted by courts in Guangdong in recent cases.” [81-3] at 5. According to Mr. Fang, “if this case were required to be brought in China, it would be necessary for Mr. Nguyen to testify in person as to the trade secret misappropriation that occurred in Illinois, as well as the development, research, and testing of the trade secrets in Illinois, in order to demonstrate the unique technological features of each of Plaintiffs' trade secrets as well as the value of Plaintiffs' trade secrets.” *Id.* at 4. Also, “if this case were required to be brought in China, it would be necessary for Mr. Ma ... to testify in person and explain the AcePower employees' familiarity with Plaintiffs' trade secret policies, their employment history, the scope of their job duties, etc., to a court in China.” *Id.* at 5. Mr. Fang opines that in-person testimony would be required due to the “large amount of documents and source code at issue in this case, the complexity of the technologies at issue, and the nature of the underlying trade secret dispute.” *Id.* In proceedings in this District, by contrast, Defendant's witnesses can provide testimony remotely, *e.g.*, through depositions in Macau or Hong Kong, where (according to Mr. Fang) such proceedings are permitted and routinely take place. See [82] at 9.

***5** The Court now turns to adequacy. Defendant and Mr. Liu contend that China is an adequate forum because "[v]iolations related to trade secret[s] are punishable by law in China." [136] at 8-9 (citing Article 9 of the Anti-Unfair Competition Law). Also, "individuals and entities who misappropriate 'commercial secrets' can be held criminally liable in China." *Id.* at 9 & n.1 (citing Criminal Law of the People's Republic of China, art. 219 (2017 Amendment)); see also [84-2] at 5-7. In general, both experts recognize that Chinese law authorizes "conduct preservation measures" that are functionally equivalent (or at least similar to) injunctive relief in the United States. However, Mr. Fang states that "according to case law research, no public act preservation order has ever been issued by the courts in Guangdong Province, where AcePower and ICC are located." [81-3] at 8.

Mr. Liu disputes this and identifies one case in which he says a court in Guangdong Province granted injunctive orders, *Guangzhou Pharmaceutical Group Co., Ltd. vs. Guangdong Jiaduobao Beverage & Food Co., Ltd.* See [84-2] at 9 & n.16; see also *id.* at 8 & n.11. The source cited by Defendant in footnote 11 indicates that *Guangzhou Pharmaceutical Group* was a false advertising and unfair competition dispute involving a disputed advertising slogan. Defendant does not attach the case or provide any analysis of it. Since this is the only case Defendant identifies, the Court is not particularly convinced as to the availability of injunctive relief to Plaintiffs in China. See, e.g., *Luxottica*, 2017 WL 1036576, at *2 (denying *forum non conveniens* based on affidavit from defendant's Chinese counsel that the Chinese District Court was an adequate forum to litigate plaintiff's trademark claims, where the affidavit provided by defendant's counsel "merely cit[ed] to trademark infringement cases that were apparently decided in Chinese Courts"; "[t]here were no written decisions supplied with the affidavit and there was no discussion about whether the Chinese court was applying Chinese law or United States law," "no indication what the decisions were other than in general that injunctions were issued and damages awarded," and no indication "one way or another whether a Chinese court would accept jurisdiction in this case which involves Italian companies seeking to enforce American Trademark law").

Further, Mr. Fang points out that, assuming injunctive relief is available, "the order cannot be executed outside the territory of the PRC, which would additionally lead to insufficient protection of the Plaintiffs' trade secrets." [81-3] at 8. For example, Plaintiffs explain, "the order from the PRC court will not prevent AcePower from using or disclosing Plaintiffs' trade secrets outside of China, including in the Northern District of Illinois and throughout the United States." *Id.* Mr. Liu's testimony does not convince the Court that a court in China would be able to monitor extraterritorial activity or require compliance with its orders outside of China. He does not provide any examples of cases in which this has been done, either generally or in a case involving a foreign plaintiff and a Chinese defendant. By contrast, the DTSA, under which Plaintiffs bring suit here, provides for worldwide injunctive relief and remedies. See 18 U.S.C. § 1837. The Court's temporary restraining order enjoins Defendant throughout the world, see [50] at 2, ¶ 2, and Defendant confirmed its compliance with the Court's order, see [54]. Under these facts, the Court cannot conclude with any confidence that Plaintiffs would have a viable avenue of relief in China were the Court to dismiss this action.

B. Balancing

The Court could rest its decision solely on Defendant's failure to demonstrate that China is an available, adequate forum. The Court will nonetheless discuss the private and public interest factors, which also weigh in favor of this Court retaining jurisdiction. In examining the individual factors, the Court keeps in mind that "[t]here is a strong presumption in favor of the plaintiff's choice of forum." *Zelinski v. Columbia 300, Inc.*, 335 F.3d 633, 643 (7th Cir. 2003). Defendant argues that this presumption should not apply with the usual force in this case because only Inventus is headquartered in this District; ICC is a Chinese corporation like Defendant. However, the Court sees no logical reason for discounting Inventus' choice of forum. Defendant cites no case law suggesting this is the rule. Inventus is headquartered in this District, originated its trade secrets in this District, and has submitted evidence that it was injured in this District as a result of Defendant's actions. This is sufficient reason for applying the usual presumption in favor of the plaintiff's forum. See, e.g., *Domanus v. Lewicki*, 645 F. Supp. 2d 697, 701 (N.D. Ill. 2009) (where at least one plaintiff was an Illinois resident, and thus suit was "filed in his home forum," there was "a reasonable basis for applying the presumption in favor of plaintiffs' chosen forum"); *TNT USA, Inc. v. TrafiExpress, S.A. de C.V.*, 434 F. Supp. 2d 1322, 1333 (S.D. Fla. 2006) ("the fact that [plaintiff] TNT Holdings is a Dutch corporation has little effect upon the deference that must be given to the choice of forum made by [plaintiff] TNT USA"). The Court now turns to the individual public and private interest factors.

A. Private Interest Factors

***6** The private interest factors are all either neutral or weigh in favor of the Court retaining jurisdiction.

1. Ease of access to sources of proof

The ease of access to sources of proof weighs in favor of this Court retaining jurisdictions. Discovery has been ongoing in this district for almost a year. Defendant has not shown that moving the lawsuit to China would allow discovery to proceed any quicker or more efficiently. Defendant challenges Plaintiffs' statement that the bulk of relevant evidence and witnesses are located in the District, but makes no attempt to show that any documentary evidence is located in China. Nor does Defendant respond to Plaintiff's reasonable argument that most business records are stored electronically and can be provided in electronic format without need for physical travel. Plaintiffs have also explained that Nguyen and Ma, residents of this District, will be key witnesses at trial. Defendant claims that Nguyen and Ma "do not have personal knowledge [of] the circumstances relevant to the alleged stealing," [84] at 18, but does not discuss any of Plaintiffs' evidence indicating otherwise. See [81] at 16 (explaining that Plaintiffs intend to rely on Nguyen and Ma to testify about the development of Inventus' trade secrets, the former ACE employees' scope of work, and their access to and use of Inventus' trade secrets).

2. Compulsory process and costs for attendance of witnesses

The second factor, compulsory process and costs of attendance for witnesses, is neutral. Defendant claims that "requesting all the potential witnesses to travel to Illinois to testify in this matter would impose an undue inconvenience and financial burden on the witnesses and parties." [65] at 13. However, as Plaintiffs point out, "[t]he only potential China-based witnesses in AcePower's initial disclosures are party employees, who are allowed by American courts to provide remote video testimony for Chinese citizens from jurisdictions such as Macau or Hong Kong, which are presently available to Chinese visitors and routinely used to provide remote testimony." [81] at 17. In any event, if the Court were to dismiss this action in favor of a Chinese forum, U.S.-based witnesses would face the same or similar challenges traveling to China or making alternative arrangements to provide testimony and otherwise participate in the litigation. Further, to the extent that Defendant has concerns about its employees not speaking English, translators may be used to assist during depositions and at trial; this is commonly done in this district. *Id.* at 18.

3. Viewing the premises

Neither party discusses viewing the premises, so it does not factor into the Court's analysis.

4. Other practical issues

Another factor that weighs in favor of the Court retaining jurisdiction is the clear availability of video testimony in this jurisdiction. Defendant has not demonstrated that Plaintiffs' witnesses would be able to participate in legal proceedings in China remotely. As explained above, both the Chinese court and all the parties would have to agree to use video, which Mr. Fang asserts is unlikely given the complexity of this case. The availability of video is especially important in light of the continuing (though apparently changing) travel restrictions surrounding the COVID-19 pandemic. Defendant claims that even taking a video deposition in Hong Kong should be avoided as it "remains a COVID-19 hotspot." [84] at 19. Given the lapse in time since Defendant filed its brief and the growing availability of vaccines in the meantime, the Court is not particularly persuaded by this argument. If travel is allowed between China and Hong Kong, a video deposition from Hong Kong appears to be feasible.

***7** Finally, the Court is not persuaded by Defendant's unsupported argument that "[a] judgment rendered by this Court could only be enforced in China after a Chinese court reevaluates the finality of the judgment and this Court's competency in rendering such a judgment." [65] at 13. Assuming that is true, the availability of a worldwide injunction in this district would outweigh any concerns about a potential delay in this Court's judgment being enforced in China.

B. Public Interest Factors

The public interest factors, considered together, also weigh in favor of the Court retaining jurisdiction.

1. Court congestion

Defendant does not address court congestion, but since this case has already been pending here for nearly a year, the Court sees little efficiency to be gained by dismissing it in favor of another forum.

2. Local interests in having localized disputes decided at home

While China "may have an interest in resolving a dispute involving one of is corporations," "Illinois also has an interest in remedying an alleged injury suffered by one of its residents," which concerns trade secrets developed in this district. *Rowell v. Fanconia Minerals Corp.*, 582 F. Supp. 2d 1031, 1037 (N.D. Ill. 2008); see also *Wasendorf v. DBH Brokerhaus AG*, 2004 WL 2872763, at *7 (N.D. Ill. Dec. 13, 2004) (Illinois has interest in "assuring remedial relief for its citizens who have been injured by foreign actors"); cf. *Luxottica*, 2017 WL 1036576, at *2 ("The U.S. trademark laws are primarily consumer protection laws so the United States and the State of Illinois have a stronger interest in seeing that their citizens have the protection of these laws than a foreign jurisdiction might have.").

3. Issues of foreign law

Issues of foreign law weigh in favor of retaining jurisdiction. United States law governs Inventus' DTSA claim, and therefore no choice of law analysis is required as to that claim. The Court considers this to be the primary claim in the case, given its determination in the preliminary injunction proceeding concerning likelihood of success. See [48] at 15-16 (concluding that "Plaintiffs have not demonstrated a likelihood of establishing that the misappropriation alleged in the complaint is actionable under the ITSA," because the ITSA (unlike the DTSA) does not have extraterritorial application and Plaintiffs did not establish that the relevant circumstances occurred "primarily and substantially" in Illinois). Any discussion of the ITSA claim is therefore secondary to the DTSA claim.

To the extent that the ITSA claim has any relevance to the Court's determination of whether to retain jurisdiction, it favors remaining in this district. Illinois applies the "most significant relationship" test to "find which state bears the most significant relationship to the occurrence and the parties involved in the action, and then applies that state's laws." *Miller v. Long-Airdox Co.*, 914 F.2d 976, 978 (7th Cir. 1990) (citing Restatement (Second) of Conflicts of Laws § 145(2)). The contacts that the Court considers include: "the place where the injury occurred; the place where the conduct causing the injury occurred; the parties' domiciles, residences, places of incorporation, and places of business; and the place where the parties' relationship, if any, is centered." *Id.* "Generally, in a tort case, the two most important contacts are the place where the injury occurred and the place where the conduct causing the injury occurred." *Id.* "Illinois law presumes that the law of the state where the injury occurred will govern 'unless another state has a more significant relationship to the occurrence or to the parties involved.' " *Id.* (quoting *Ferguson v. Kasbohm,* 475 N.E.2d 984, 986 (Ill. App. 1985)); see also *Greene*, 206 F. Supp. 3d at 1383 ("Victim location and injurer location are valid considerations. But when they point to two different jurisdictions they cancel out, leaving the place where the injury (and hence the tort) occurred as the presumptive source of the law governing the accident.").

***8** Inventus alleges that it was injured in this District, where it is headquartered. Defendant points out that ICC, a Chinese corporation, must have been injured in China. But as far as the Court can see, the primary potential injury appears to be to Inventus, which developed and owns the trade secrets that are at the heart of this dispute. The Court finds it appropriate to apply the presumption that the place of injury—Illinois—governs because Defendant has not shown that China has a more significant relationship to the occurrence or the parties involved. Defendant has never come to terms with Plaintiffs' evidence that "ACE employees, while working for Plaintiff and for the purpose of aiding Defendant, downloaded *en masse* volumes of documents that originated at Inventus's facilities in this District, and were either placed on a shared network drive accessed by the employees or emailed to them, at their request." [48] at 10. To the extent that Inventus' trade secrets were stolen from this District and used by Defendant to compete for the same customers, courts in this District have an obvious interest in providing redress.

Defendant also argues that China is the preferable forum because discovery will involve analysis and application of Chinese procedural law and Hague Service Convention procedures. The court sees no reason why a court in China would be better able to apply the Hague Service Convention than this Court. Indeed, issues surrounding the Convention have already been presented to Magistrate

Judge Cummings. To the extent that the Court may need to interpret Chinese procedural law, courts "do[ ] not view the mere potential for [foreign] law to play a role in this case as a strong reason to dismiss." *Rowell*, 582 F. Supp. 2d at 1037; see also *ISI Int'l, Inc. v. Borden Ladner Gervais LLP*, 316 F.3d 731, 732 (7th Cir. 2003) ("[A] U.S. judge's desire to avoid the burden of mastering a new legal subject [is not] an adequate reason to send litigants packing.").

4. Unfairness of burdening forum citizens with jury duty

The parties do not specifically address the burden of jury service. As this lawsuit involves an injury to a business that is headquartered in this district, and concerns trade secrets developed in this district, there would be nothing unfair about expecting individuals from this district to serve on a jury to try Plaintiffs' claims.

IV. Conclusion

For these reasons, the Court concludes that (1) Defendant has failed to demonstrate that China is an available and adequate forum for litigating the parties' dispute; and (2) the balance of private and public factors weighs in favor of the Court retaining jurisdiction. Therefore, Defendant's motion to dismiss based on forum *non conveniens* [136] is denied.

All Citations

Slip Copy, 2021 WL 1978342

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BILLING CODE: 6750-01-P

FEDERAL TRADE COMMISSION

16 CFR Part 910

RIN 3084-AB74

Non-Compete Clause Rule

AGENCY: Federal Trade Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: Pursuant to Sections 5 and 6(g) of the Federal Trade Commission Act, the Federal Trade Commission ("Commission") is proposing the Non-Compete Clause Rule. The proposed rule would, among other things, provide that it is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; to maintain with a worker a non-compete clause; or, under certain circumstances, to represent to a worker that the worker is subject to a non-compete clause.

DATES: Comments must be received on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

ADDRESSES: Interested parties may file a comment online or on paper by following the instructions in the Request for Comment part of the **SUPPLEMENTARY INFORMATION** section below. Write "Non-Compete Clause Rulemaking, Matter No. P201200" on your comment, and file your comment online at https://www.regulations.gov, by following the instructions on the web-based form. If you prefer to file your comment on paper, mail your comment to the following address: Federal Trade Commission, Office of the Secretary, 600 Pennsylvania Avenue NW, Suite

CC-5610 (Annex C), Washington, DC 20580.

FOR FURTHER INFORMATION CONTACT: Shannon Lane (202-876-5651), Attorney, Office of Policy Planning, Federal Trade Commission.

SUPPLEMENTARY INFORMATION:

I. Overview of the Proposed Rule

A non-compete clause is a contractual term between an employer and a worker that typically blocks the worker from working for a competing employer, or starting a competing business, within a certain geographic area and period of time after the worker's employment ends. Non-compete clauses limit competition by their express terms. As a result, non-compete clauses have always been considered proper subjects for scrutiny under the nation's antitrust laws.[1] In addition, non-compete clauses between employers and workers are traditionally subject to more exacting review under state common law than other contractual terms, due, in part, to concerns about unequal bargaining power between employers and workers and the fact that non-compete clauses limit a worker's ability to practice their trade.[2]

In recent decades, important research has shed light on how the use of non-compete clauses by employers affects competition. Changes in state laws governing non-compete clauses have provided several natural experiments that have allowed researchers

[1] *See, e.g.*, *U.S. v. Am. Tobacco Co.*, 221 U.S. 106, 181–83 (1911) (holding several tobacco companies violated Sections 1 and 2 of the Sherman Act due to the collective effect of six of the companies' practices, one of which was the "constantly recurring" use of non-compete clauses); *Newburger, Loeb & Co., Inc. v. Gross*, 563 F.2d 1057, 1082 (2d Cir. 1977) ("Although such issues have not often been raised in the federal courts, employee agreements not to compete are proper subjects for scrutiny under section 1 of the Sherman Act. When a company interferes with free competition for one of its former employee's services, the market's ability to achieve the most economically efficient allocation of labor is impaired. Moreover, employee-noncompetition clauses can tie up industry expertise and experience and thereby forestall new entry.") (internal citation omitted).

[2] *See infra* Part II.C.

to study the impact of non-compete clauses on competition. This research has shown the use of non-compete clauses by employers has negatively affected competition in labor markets, resulting in reduced wages for workers across the labor force—including workers not bound by non-compete clauses.[3] This research has also shown that, by suppressing labor mobility, non-compete clauses have negatively affected competition in product and service markets in several ways.[4]

In this rulemaking, the Commission seeks to ensure competition policy is aligned with the current economic evidence about the consequences of non-compete clauses. In the Commission's view, the existing legal frameworks governing non-compete clauses—formed decades ago, without the benefit of this evidence—allow serious anticompetitive harm to labor, product, and service markets to go unchecked.

Section 5 of the Federal Trade Commission Act ("FTC Act") declares "unfair methods of competition" to be unlawful.[5] Section 5 further directs the Commission "to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce."[6] Section 6(g) of the FTC Act authorizes the Commission to "make rules and regulations for the purpose of carrying out the provisions of" the FTC Act, including the Act's prohibition of unfair methods of competition.[7]

Pursuant to Sections 5 and 6(g) of the FTC Act, the Commission proposes the Non-Compete Clause Rule. The proposed rule would provide it is an unfair method of competition—and therefore a violation of Section 5—for an employer to enter into or

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[3] *See infra* Part II.B.1.
[4] *See infra* Part II.B.2.
[5] 15 U.S.C. 45(a)(1).
[6] 15 U.S.C. 45(a)(2).
[7] 15 U.S.C. 46(g).

attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or, under certain circumstances, represent to a worker that the worker is subject to a non-compete clause.[8]

The proposed rule would define the term "non-compete clause" as a contractual term between an employer and a worker that prevents the worker from seeking or accepting employment with a person, or operating a business, after the conclusion of the worker's employment with the employer.[9] The proposed rule would also clarify that whether a contractual provision is a non-compete clause would depend not on what the provision is called, but how the provision functions. As the Commission explains below, the definition of non-compete clause would generally not include other types of restrictive employment covenants—such as non-disclosure agreements ("NDAs") and client or customer non-solicitation agreements—because these covenants generally do not prevent a worker from seeking or accepting employment with a person or operating a business after the conclusion of the worker's employment with the employer. However, under the proposed definition of "non-compete clause," such covenants would be considered non-compete clauses where they are so unusually broad in scope that they function as such.[10]

The proposed rule would define "employer" as a person—as the term "person" is defined in 15 U.S.C. 57b-1(a)(6)—that hires or contracts with a worker to work for the person.[11] The proposed rule would define "worker" as a natural person who works,

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[8] *See* proposed § 910.2(a). For ease of reference, this NPRM employs the term "use of non-compete clauses" as a shorthand to refer to the conduct that the proposed rule would provide is an unfair method of competition.

[9] *See* proposed § 910.1(b)(1).

[10] *See infra* Part V (in the section-by-section analysis for proposed § 910.1(b)).

[11] *See* proposed § 910.1(c).

whether paid or unpaid, for an employer. The proposed rule would clarify that the term "worker" includes an employee, individual classified as an independent contractor, extern, intern, volunteer, apprentice, or sole proprietor who provides a service to a client or customer.[12]

In addition to prohibiting employers from entering into non-compete clauses with workers starting on the rule's compliance date, the proposed rule would require employers to rescind existing non-compete clauses no later than the rule's compliance date.[13] The proposed rule would also require an employer rescinding a non-compete clause to provide notice to the worker that the worker's non-compete clause is no longer in effect.[14] To facilitate compliance, the proposed rule would (1) include model language that would satisfy this notice requirement[15] and (2) establish a safe harbor whereby an employer would satisfy the rule's requirement to rescind existing non-compete clauses where it provides the worker with a notice that complies with this notice requirement.[16]

The proposed rule would include a limited exception for non-compete clauses between the seller and buyer of a business.[17] This exception would only be available where the party restricted by the non-compete clause is an owner, member, or partner holding at least a 25% ownership interest in a business entity.[18] The proposed regulatory text would clarify that non-compete clauses covered by this exception would remain subject to federal antitrust law as well as all other applicable law.

[12] *See* proposed § 910.1(f).
[13] *See* proposed § 910.2(b)(1).
[14] *See* proposed § 910.2(b)(2)(A).
[15] *See* proposed § 910.2(b)(2)(C).
[16] *See* proposed § 910.2(b)(3).
[17] *See* proposed § 910.3.
[18] *See* proposed §§ 910.3 and 910.1(e).

The proposed rule would establish an effective date of 60 days, and a compliance date of 180 days, after publication of a final rule in the *Federal Register*.[19]

In this notice of proposed rulemaking ("NPRM"), the Commission describes and seeks comment on several alternatives to the proposed rule, including whether non-compete clauses between employers and senior executives should be subject to a different standard than non-compete clauses with other workers.[20] The Commission also assesses the benefits and costs of the proposed rule, the impact of the proposed rule on small businesses, and compliance costs related to the proposed rule's notice requirement.[21]

The Commission seeks comment on all aspects of this NPRM. Comments must be received on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].[22]

II. Factual Background

A. What Are Non-Compete Clauses?

A non-compete clause is a contractual term between an employer and a worker that prevents the worker from seeking or accepting employment with a person, or operating a business, after the conclusion of the worker's employment with the employer.[23] A typical non-compete clause blocks the worker from working for a

[19] *See* proposed § 910.5.

[20] *See infra* Part VI.

[21] *See infra* Parts VII–IX.

[22] Pursuant to Section 22(d)(4) of the FTC Act, 15 U.S.C. 57b-3(d)(4), this NPRM was not included in the Commission's Spring 2022 Regulatory Agenda because the Commission first considered it after the publication deadline for the Regulatory Agenda.

[23] *See* proposed § 910.1(b). The term "non-compete clause" has also been used describe agreements between one or more business not to compete against one another, *see, e.g.*, *Lumber Liquidators, Inc. v. Cabinets To Go, LLC*, 415 F. Supp. 3d 703, 709 (E.D. Va. 2009), as well as certain kinds of moonlighting during a worker's employment, *see, e.g.*, *In the Matter of the Investigation by Barbara D. Underwood, Att'y Gen. of the State of N.Y. of WeWork Companies, Inc.*, Assurance of Discontinuance No. 18-101 (Sept. 18, 2018) at Exhibit B. As underscored above, however, this proposed rule focuses only on post-employment restraints that employers impose on workers.

competing employer, or starting a competing business, within a certain geographic area and period of time after their employment ends. A non-compete clause may be part of the worker's employment contract or may be contained in a standalone contract. Employers and workers may enter into non-compete clauses at the start of, during, or at the end of a worker's employment.

If a worker violates a non-compete clause, the employer may sue the worker for breach of contract. An employer may be able to obtain a preliminary injunction ordering the worker, for the duration of the lawsuit, to stop the conduct that allegedly violates the non-compete clause. If the employer wins the lawsuit, the employer may be able to obtain a permanent injunction ordering the worker to stop the conduct that violates the non-compete clause; a payment of monetary damages from the worker; or both.[24] Where workers are subject to arbitration clauses,[25] the employer may seek to enforce the non-compete clause through arbitration.

The below examples of non-compete clauses from recent news reports, legal settlements, and court opinions are illustrative.

- A contractual term between a security guard firm and its security guards requiring that, for two years following the conclusion of the security guards' employment with the firm, the security guard may not "[a]ccept employment with or be employed by" a competing business "within a one hundred (100) mile radius" of the security guard's primary jobsite with the firm and stating that the security guards may not "[a]ssist, aid or in any manner whatsoever help any firm,

[24] Donald J. Aspelund & Joan E. Beckner, Employee Noncompetition Law § 8:2, § 8:22 (Aug. 2021).

[25] *See, e.g.*, Alexander J.S. Colvin, Econ. Pol'y Inst., Report, *The Growing Use of Mandatory Arbitration* (Apr. 6, 2018).

corporation, partnership or other business to compete with" the firm. The non-compete clause also contains a "liquidated damages" clause requiring the security guard to pay the firm $100,000 as a penalty for any conduct that contravenes the agreement.[26]

- A contractual term between a glass container manufacturing company and its workers typically requiring that, for two years following the conclusion of the worker's employment with the company, the worker may not directly or indirectly "perform or provide the same or substantially similar services" to those the worker performed for the company to any business in the U.S., Canada, or Mexico that is "involved with or that supports the sale, design, development, manufacture, or production of glass containers" in competition with the company.[27]
- A contractual term between a sandwich shop chain and its workers stating that, for two years after the worker leaves their job, the worker may not perform services for "any business which derives more than ten percent (10%) of its revenue from selling submarine, hero-type, deli-style, pita and/or wrapped or rolled sandwiches" located within three miles of any of the chain's more than 2,000 locations in the United States.[28]

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[26] Fed. Trade Comm'n, Complaint, *In re Prudential Sec., Inc. et al.*, Matter No. 221 0026 at ¶ 12–¶ 13 (December 28, 2022).

[27] Fed. Trade Comm'n, Complaint, *In re Ardagh Group S.A. et al.*, Matter No. 211 0182 at ¶ 9 (December 28, 2022).

[28] Dave Jamieson, *Jimmy John's Makes Low-Wage Workers Sign 'Oppressive' Noncompete Agreements*, HuffPost (Oct. 13, 2014). The company agreed to remove the non-compete clause in 2016 as part of a settlement. Office of the Att'y Gen. of the State of N.Y., Press Release, *A.G. Schneiderman Announces Settlement With Jimmy John's To Stop Including Non-Compete Agreements In Hiring Packets* (June 22, 2016).

- A contractual term between a steelmaker and one of its executives prohibiting the executive from working for "any business engaged directly or indirectly in competition with" the steelmaker anywhere in the world for one year following the termination of the executive's employment.[29]
- A contractual term between an office supply company and one of its sales representatives stating that, for two years after the sales representative's last day of employment, the sales representative is prohibited from "engag[ing] directly or indirectly, either personally or as an employee, associate, partner, or otherwise, or by means of any corporation or other legal entity, or otherwise, in any business in competition with Employer," within a 100-mile radius of the sales representative's employment location.[30]
- A contractual term between a nationwide payday lender and its workers stating that, for one year after the worker leaves their job, they are prohibited from performing any "consumer lending services or money transmission services" for any entity that provides such services, or to "sell products or services that are competitive with or similar to the products or services of the Company," within a 15-mile radius of any of the payday lender's 1,000 locations in the United States.[31]
- A contractual term between an online retailer and its warehouse workers prohibiting the workers, for 18 months after leaving their job, from "directly or

[29] *AK Steel Corp. v. ArcelorMittal USA, LLC*, 55 N.E.3d 1152, 1156 (Ohio Ct. App. 2016).
[30] *Osborne v. Brown & Saenger, Inc.*, 904 N.W.2d 34, 36 (N.D. 2017).
[31] *People of the State of Ill. v. Check Into Cash of Ill.*, LLC, Complaint, 2017-CH-14224 (Ill. Circuit Ct. Oct. 25, 2017), ¶ 29, ¶ 70, https://illinoisattorneygeneral.gov/pressroom/2017_10/Check_Into_Cash-Complaint.pdf.

indirectly . . . engag[ing] or support[ing] the development, manufacture, marketing, or sale of any product or service that competes or is intended to compete with any product or service sold, offered, or otherwise provided by" the retailer—or that is "intended to be sold, offered, or otherwise provided by [the retailer] in the future"—that the worker "worked on or supported" or about which the worker obtained or received confidential information.[32]

- A contractual term between a medical services firm and an ophthalmologist stating that, for two years after the termination of the ophthalmologist's employment with the firm, the ophthalmologist shall not engage in the practice of medicine in two Idaho counties unless the ophthalmologist pays the firm a "practice fee" of either $250,000 or $500,000, depending on when the ophthalmologist's employment ends.[33]

In addition to non-compete clauses, other types of contractual provisions restrict what a worker may do after they leave their job. These other types of provisions include, among others:

- Non-disclosure agreements (NDAs)—also known as "confidentiality agreements"—which prohibit the worker from disclosing or using certain information;

[32] Spencer Woodman, Exclusive: *Amazon makes even temporary warehouse workers sign 18-month non-compete clauses*, The Verge (Mar. 26, 2015). The company removed the non-compete clause following the media coverage. Josh Lowensohn, *Amazon does an about-face on controversial warehouse worker non-compete contracts*, The Verge (Mar. 27, 2015).

[33] *Intermountain Eye & Laser Ctrs. P.L.L.C. v. Miller*, 127 P.3d 121, 123 (Idaho 2005).

- Client or customer non-solicitation agreements, which prohibit the worker from soliciting former clients or customers of the employer (referred to in this NPRM as "non-solicitation agreements");[34]
- No-business agreements, which prohibit the worker from doing business with former clients or customers of the employer, whether or not solicited by the worker;
- No-recruit agreements, which prohibit the worker from recruiting or hiring the employer's workers;
- Liquidated damages provisions, which require the worker to pay the employer a sum of money if the worker engages in certain conduct; and
- Training-repayment agreements (TRAs), a type of liquidated damages provision in which the worker agrees to pay the employer for the employer's training expenses if the worker leaves their job before a certain date.[35]

These other types of restrictive employment covenants can sometimes be so broad in scope that they serve as *de facto* non-compete clauses.[36]

In addition to restricting what workers may do after they leave their jobs, employers have also entered into agreements with other employers in which they agree not to compete for one another's workers. These include no-poach agreements, in which

[34] The term "non-solicitation agreement" can also refer to a type of agreement between employers not to solicit one another's employees. In this NPRM, however, the term refers only to contractual provisions between employers and workers prohibiting the worker from soliciting clients or customers of the employer.

[35] *See, e.g.*, Norman D. Bishara, Kenneth J. Martin, and Randall S. Thomas, *An Empirical Analysis of Non-Competition Clauses and Other Restrictive Post-Employment Covenants*, 68 Vand. L. Rev. 1, 13 (2015); Uniform Law Comm'n, *Uniform Restrictive Employment Agreement Act*, Draft For Approval (2021) at § 2.

[36] *See, e.g.*, *Wegmann v. London*, 648 F.2d 1072, 1073 (5th Cir. 1981); *Brown v. TGS Mgmt. Co., LLC*, 57 Cal. App. 5th 303, 306, 319 (Cal. Ct. App. 2020).

employers agree not to solicit or hire one another's workers, and wage-fixing agreements, in which employers agree to limit wages or salaries (or other terms of compensation).[37]

The Commission seeks comment on its description in this Part II.A of non-compete clauses. The Commission also encourages workers, employers, and other members of the public to submit comments describing their experiences with non-compete clauses.

B. Evidence Relating to the Effects of Non-Compete Clauses on Competition

Non-compete clauses have presented challenging legal issues for centuries.[38] But only in the last two decades has empirical evidence emerged to help regulators and the general public understand how non-compete clauses affect competition in labor markets and product and service markets.

In the early 2000s, researchers began to shed new light on the impacts of non-compete clauses on innovation and productivity. As this new body of research was evolving, news reports revealed non-compete clauses were being imposed even on low-wage workers.[39] These reports surprised many observers, who had assumed only highly skilled workers were subject to non-compete clauses.[40] Researchers responded by applying the tools of economic research to better understand how employers were using non-compete clauses and how they were affecting competition.

1. Labor Markets

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[37] Fed. Trade Comm'n & U.S. Dep't of Justice Antitrust Division, Antitrust Guidance for Human Resource Professionals (Oct. 2016) at 3.

[38] *See infra* Part II.C.

[39] *See, e.g.*, Jamieson, *supra* note 28.

[40] *See, e.g.*, Alan B. Kreuger & Eric A. Posner, The Hamilton Project, Policy Proposal 2018-05, *A Proposal for Protecting Low-Income Workers from Monopsony and Collusion* (February 2018) at 7.

The empirical research on how non-compete clauses affect competition shows that the use of non-compete clauses in the aggregate is interfering with competitive conditions in labor markets.

Labor markets function by matching workers and employers. Workers offer their skills and time to employers. In return, employers offer pay, benefits, and job satisfaction.[41] In a well-functioning labor market, a worker who is seeking a better job—more pay, better hours, better working conditions, more enjoyable work, or whatever the worker may be seeking—can enter the labor market by looking for work. Employers who have positions available compete for the worker's services. The worker's current employer may also compete with these prospective employers by seeking to retain the worker—for example, by offering to raise the worker's pay or promote the worker. Ultimately, the worker chooses the job that best meets their objectives. In general, the more jobs available—*i.e.*, the more options the worker has—the stronger the match the worker will find.

Just as employers compete for workers in a well-functioning labor market, workers compete for jobs. An employer who needs a worker will make it known that the employer has a position available. Workers who learn of the opening will apply for the job. From among the workers who apply, the employer will choose the worker that best meets the employer's needs—in general, the worker most likely to be the most productive. In general, the more workers who are available—*i.e.*, the more options the employer has—the stronger the match the employer will find.

[41] *See, e.g.*, Dep't of the Treasury, Report, *The State of Labor Market Competition* (March 7, 2022) at 3.

Through these processes—employers competing for workers, workers competing for jobs, and employers and workers matching with one another—competition in the labor market leads to higher earnings for workers, greater productivity for employers, and better economic conditions.

In a perfectly competitive labor market, if a job that a worker would prefer more—for example, because it has higher pay or is in a better location—were to become available, the worker could switch to it quickly and easily. Due to this ease of switching, in a perfectly competitive labor market, workers would easily match to the optimal job for them. If a worker were to find themselves in a job where the combination of their happiness and productivity is less than in some other job, they would simply switch jobs, making themselves better off.

However, this perfectly competitive labor market exists only in theory. In practice, labor markets deviate substantially from perfect competition. Non-compete clauses, in particular, impair competition in labor markets by restricting a worker's ability to change jobs. If a worker is bound by a non-compete clause, and the worker wants a better job, the non-compete clause will prevent the worker from accepting a new job that is within the scope of the non-compete clause. These are often the most natural alternative employment options for a worker: jobs in the same geographic area and in the worker's field of expertise. For example, a non-compete clause might prevent a nurse in Cleveland from working in the health care field in Northeast Ohio, or a software engineer in Orlando from working for another technology company in Central Florida. The result is less competition among employers for the worker's services and less competition among workers for available jobs. Since the worker is prevented from taking these jobs, the worker may decide not to enter the labor market at all. Or the worker may enter the labor market but take a job in which they are less productive, such as a job outside their field.

Non-compete clauses affect competition in labor markets through their use in the aggregate. The effect of an individual worker's non-compete clause on competition in a particular labor market may be marginal or may be impossible to discern statistically. However, the use of a large number of non-compete clauses across a labor market markedly affects the opportunities of all workers in that market, not just those with non-compete clauses. By making it more difficult for many workers in a labor market to switch to new jobs, non-compete clauses inhibit optimal matches from being made between employers and workers across the labor force. As a result, where non-compete clauses are prevalent in a market, workers are more likely to remain in jobs that are less optimal with respect to the worker's ability to maximize their productive capacity. This materially reduces wages for workers—not only for workers who are subject to non-compete clauses, but for other workers in a labor market as well, since jobs that would otherwise be better matches for an unconstrained worker are filled by workers subject to non-compete clauses.

a. Estimates of Non-Compete Clause Use

Based on the available evidence, the Commission estimates that approximately one in five American workers—or approximately 30 million workers—is bound by a non-compete clause.

A 2014 survey of workers by Evan Starr, JJ Prescott, and Norman Bishara, which resulted in 11,505 responses, found 18% of respondents work under a non-compete clause and 38% of respondents have worked under one at some point in their lives.[42] Among the studies of non-compete clause use discussed here, this study has the broadest and likely the most representative coverage of the U.S. labor force.[43] Starr, Prescott, and Bishara also found that, among workers without a bachelor's degree, 14% of respondents reported working under a non-compete clause at the time surveyed and 35% reported having worked under one at some point in their lives.[44] For workers earning less than $40,000 per year, 13% of respondents work under a non-compete clause and 33% worked under one at some point in their lives.[45] Furthermore, this survey shows 53% of workers who are covered by non-compete clauses are hourly workers.[46]

Starr, Prescott, and Bishara also found, in states where non-compete clauses are unenforceable, workers are covered by non-compete clauses at approximately the same rate as workers in other states.[47] This suggests employers maintain non-compete clauses even where they likely cannot enforce them.

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[42] Evan P. Starr, James J. Prescott, & Norman D. Bishara, *Noncompete Agreements in the U.S. Labor Force*, 64 J. L. & Econ. 53, 53 (2021). A survey of workers conducted in 2017 by Payscale.com reached similar results. This survey estimated that 24.2% of workers are subject to a non-compete clause. Natarajan Balasubramanian, Evan Starr, & Shotaro Yamaguchi, *Bundling Employment Restrictions and Value Appropriation from Employees* 35 (2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3814403. This survey also found that non-compete clauses are often used together with other restrictive employment covenants, including non-disclosure, non-recruitment, and non-solicitation covenants. *Id.* at 17 (reporting that respondents that had a non-compete clause reported having all three of the other restrictive employment covenants 74.7% of the time). However, a key limitation of the Payscale.com survey is that it is a convenience sample of individuals who visited Payscale.com during the time period of the survey and is therefore unlikely to be fully representative of the U.S. working population. *Id.* at 13. While weighting based on demographics helps, it does not fully mitigate this concern.

[43] The final survey sample contained 11,505 responses, representing individuals from nearly every demographic in the labor force. *Id.* at 58.

[44] *Id.* at 63.

[45] *Id.*

[46] Michael Lipsitz & Evan Starr, *Low-Wage Workers and the Enforceability of Noncompete Agreements*, 68 Mgmt. Sci. 143, 144 (2021) (analyzing data from the Starr, Prescott, & Bishara survey).

[47] Starr, Prescott, & Bishara, *supra* note 42 at 81.

Other estimates of non-compete clause use cover subsets of the U.S. labor force. One study, a 2021 study by Rothstein and Starr, is based on National Longitudinal Survey of Youth (NLSY) data.[48] The NLSY consists of a nationally representative sample of 8,984 men and women born from 1980-84 and living in the United States at the time of the initial survey in 1997.[49] The survey is an often-used labor survey conducted by the Bureau of Labor Statistics, rather than a one-off survey directed solely at calculating the prevalence of non-compete clauses. Using this data, Rothstein and Starr estimate the prevalence of non-compete clauses to be 18%, which is comparable to the number estimated by Starr, Prescott, and Bishara.[50]

Finally, four occupations have been studied individually: executives, physicians, hair stylists, and electrical and electronics engineers. Both Shi (2021) and Kini et al. (2021) estimate prevalence of non-compete clauses for executives. Shi (2021) finds the proportion of executives working under a non-compete clause rose from "57% in the early 1990s to 67% in the mid-2010s."[51] Kini et al. (2021) find that 62% of CEOs worked under a non-compete clause between 1992 and 2014.[52] Lavetti et al. (2020) find 45% of physicians worked under a non-compete clause in 2007.[53] In a survey of independent hair salon owners, Johnson and Lipsitz (2021) find 30% of hair stylists

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[48] Donna S. Rothstein & Evan Starr, *Mobility Restrictions, Bargaining, and Wages: Evidence from the National Longitudinal Survey of Youth 1997* (2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3974897.

[49] U.S. Bureau of Labor Statistics, *NLSY97 Data Overview*, https://www.bls.gov/nls/nlsy97.htm.

[50] Rothstein & Starr, *supra* note 48 at 7.

[51] Liyan Shi, *Optimal Regulation of Noncompete Contracts* 27 (2022), https://static1.squarespace.com/static/59e19b282278e7ca5b9ff84f/t/626658ffb73adb2959bd4371/1650874624095/noncompete_shi.pdf.

[52] Omesh Kini, Ryan Williams, & Sirui Yin, *CEO Noncompete Agreements, Job Risk, and Compensation*, 34 Rev. Fin. Stud. 4701, 4707 (2021).

[53] Kurt Lavetti, Carol Simon, & William D. White, *The Impacts of Restricting Mobility of Skilled Service Workers Evidence from Physicians*, 55 J. Hum. Res. 1025, 1042 (2020).

worked under a non-compete clause in 2015.[54] Finally, in a survey of electrical and electronic engineers, Marx (2011) finds that 43% of respondents signed a non-compete clause.[55]

Some observers have stated that the use of non-compete clauses by employers appears to have increased over time.[56] However, there is no consistent data available on the prevalence of non-compete clauses over time.

While many workers are bound by non-compete clauses, many workers do not know whether their non-compete clause is legally enforceable or not. As part of their 2014 survey, Starr et al. asked surveyed individuals "Are noncompetes enforceable in your state?" Of the respondents, 37% indicated that they did not know whether or not their non-compete clause was enforceable.[57] Additionally, 11% of individuals were misinformed: they believed that non-compete clauses were enforceable in their state when they were not, or they believed that non-compete clauses were not enforceable when they were.[58]

Starr et al. also find that only 10.1% of workers with non-compete clauses report bargaining over it.[59] Additionally, only 7.9% report consulting a lawyer, and only 11.4% of respondents thought that they still would have been hired if they had refused to sign

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[54] Matthew S. Johnson & Michael Lipsitz, *Why Are Low-Wage Workers Signing Noncompete Agreements?*, 57 J. Hum. Res. 689, 700 (2022).

[55] Matt Marx, *The Firm Strikes Back: Non-Compete Agreements and the Mobility of Technical Professionals*, 76 Am. Socio. Rev. 695, 702 (2011). Calculated as 92.60% who signed a non-compete clause of the 46.80% who were asked to sign a non-compete clause.

[56] *See, e.g.*, Rachel Arnow-Richman, *Cubewrap Contracts and Worker Mobility: The Dilution of Employee Bargaining Power via Standard Form Noncompetes*, 2006 Mich. St. L. Rev. 963, 981 n.59; John W. Lettieri, American Enterprise Institute, Policy Brief, *A Better Bargain: How Noncompete Reform Can Benefit Workers and Boost Economic Dynamism* (December 2020) at 2.

[57] J.J. Prescott & Evan Starr, *Subjective Beliefs About Contract Enforceability* 10 (2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3873638.

[58] *Id.* at 11.

[59] Starr, Prescott, & Bishara, *supra* note 42, at 72.

the non-compete clause.[60] Marx finds that only 30.5% of electrical engineers who signed non-compete clauses were asked to sign prior to accepting their job offer, and 47% of non-compete clause signers were asked to sign on or after their first day of work.[61]

b. Earnings – Effects on Workers Across the Labor Force

By inhibiting optimal matches from being made between employers and workers across the labor force, non-compete clauses reduce the earnings of workers. Several studies have found that increased enforceability of non-compete clauses reduces workers' earnings across the labor market generally and for specific types of workers.

Each of the studies described below analyzes the effects of non-compete clause enforceability on earnings. While different studies have defined enforceability of non-compete clauses in slightly different ways, each uses enforceability as a proxy for the chance that a given non-compete clause will be enforced.[62]

These studies use "natural experiments" resulting from changes in state law to assess how changes in the enforceability of non-compete clauses affect workers' earnings. The use of a natural experiment allows for the inference of causal effects, since the likelihood that other variables are driving the outcomes is minimal.

First, a study conducted by Matthew Johnson, Kurt Lavetti, and Michael Lipsitz finds that decreasing non-compete clause enforceability from the approximate enforceability level of the fifth-strictest state to that of the fifth-most-lax state would

[60] *Id.*

[61] Marx (2011), *supra* note 55 at 706. Forty-seven percent is calculated as the sum of 24.43% and 22.86%, the respective percentage of requests that were made on the first day or after the first day at the company.

[62] All the studies described below rely on twelve concepts of enforceability based on Malsberger's "Non-Compete Clauses: A State-by-State Survey" and Kini et al. supplemented with data from Beck, Reed, and Riden LLP's state-by-state survey of non-compete clauses.

increase workers' earnings by 3-4%.[63] Johnson, Lavetti, and Lipsitz also estimate that a nationwide ban on non-compete clauses would increase average earnings by 3.3-13.9%.[64] The authors also find that non-compete clauses limit the ability of workers to leverage favorable labor markets to receive greater pay: when non-compete clauses are more enforceable, workers' earnings are less responsive to low unemployment rates (which workers may typically leverage to negotiate pay raises).[65]

The second study of the effects of non-compete clause enforceability on earnings, conducted by Evan Starr, estimates that if a state that does not enforce non-compete clauses shifted its policy to that of the state with an average level of enforceability, earnings would fall by about 4%.[66] Unlike many of the other studies described here, this study does not use a change in enforceability of non-compete clauses to analyze the impact of enforceability. Rather, it examines the differential impact of enforceability on workers in occupations which use non-compete clauses at a high rate versus workers in occupations which use non-compete clauses at a low rate. While the Commission believes that this research design may be less informative with respect to the proposed rule than designs which examine changes in enforceability, the study's estimated effects are in line with the rest of the literature.

The third study, conducted by Michael Lipsitz and Evan Starr, estimates that when Oregon stopped enforcing non-compete clauses for workers who are paid hourly, their wages increased by 2-3%, relative to workers in states which did not experience

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[63] Matthew S. Johnson, Kurt Lavetti, & Michael Lipsitz, *The Labor Market Effects of Legal Restrictions on Worker Mobility* 2 (2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3455381.
[64] *Id.*
[65] *Id.* at 36.
[66] Evan Starr, *Consider This: Training, Wages, and the Enforceability of Non-Compete Clauses*, 72 I.L.R. Rev. 783, 799 (2019).

legal changes. The study also found a greater effect (4.6%) on workers in occupations that used non-compete clauses at a relatively high rate.[67]

The fourth study, conducted by Natarajan Balasubramanian, Jin Woo Chang, Mariko Sakakibara, Jagadeesh Sivadasan, and Evan Starr, found that when Hawaii stopped enforcing non-compete clauses for high-tech workers, earnings of new hires increased by about 4%.[68]

The fifth and sixth studies both show that enforceable non-compete clauses reduce earnings for executives. One study, by Mark Garmaise, finds that decreased enforceability of non-compete clauses increases executives' earnings by 12.7%.[69] Another study, by Omesh Kini, Ryan Williams, and David Yin, finds that decreased enforceability of non-compete clauses led to lower earnings for CEOs when use of non-compete clauses is held constant. However, the study also finds use of non-compete clauses decreases when non-compete clause enforceability decreases. When that relationship is taken into account, decreased enforceability results in greater earnings for CEOs. For example, if the state which enforces non-compete clauses most strictly (Florida) hypothetically moved to a policy of non-enforcement, then a CEO who had a non-compete clause prior to the policy change would experience an estimated 11.4% increase in their earnings, assuming their non-compete clause was dropped.[70]

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[67] Lipsitz & Starr, *supra* note 46 at 143.

[68] Natarajan Balasubramanian, Jin Woo Chang, Mariko Sakakibara, Jagadeesh Sivadasan, & Evan Starr, *Locked In? The Enforceability of Non-Compete Clauses and the Careers of High-Tech Workers*, 57 J. Hum. Res. S349, S349 (2022).

[69] Mark J. Garmaise, *Ties that Truly Bind: Noncompetition Agreements, Executive Compensation, and Firm Investment*, 27 J. L., Econ., & Org. 376, 403 (2011). The reduction in earnings is calculated as $e^{-1.3575*0.1}-1$, where -1.3575 is taken from Table 4.

[70] Kini, Williams, & Yin, *supra* note 52 at 4731. The 11.4% increase is calculated as $e^{X}-1$, where X is calculated as 9 times the coefficient on CEO Noncompete x HQ Enforce (0.047), where 9 is the enforceability index in Florida, plus the coefficient on CEO Noncompete (-0.144), plus 9 times the coefficient on HQ Enforce (-0.043).

Among the studies listed above, Johnson, Lavetti, and Lipsitz likely has the broadest coverage. The study spans the years 1991 to 2014, examines workers across the labor force, and uses all known common law and statutory changes in non-compete clause enforceability to arrive at its estimates. The study by Starr also covers the entire labor force, from 1996 to 2008. However, the Starr study is only able to compare effects for occupations that use non-compete clauses at a high rate to those that use them at a low rate. The next two studies cover just one legal change, and only a subset of the labor force: hourly workers in Oregon, in the case of Lipsitz and Starr, and high-tech workers in Hawaii, in the case of Balasubramanian et al. Finally, while the studies conducted by Garmaise and Kini et al. examine multiple legal changes, they focus solely on executives.

One limitation of studies of enforceability alone—*i.e.*, studies which do not consider the use of non-compete clauses—is that it is difficult to disentangle the effects of increased enforceability on workers who are subject to non-compete clauses and workers who are not subject to non-compete clauses. In other words, since effects are observed across the labor force (or some subset of it), they include both effects on workers with and without non-compete clauses. However, due to the research cited in the next subsection—indicating non-compete clauses reduce earnings for workers who are *not* subject to non-compete clauses—the Commission believes it is reasonable to conclude based on contextual evidence that the labor-force-wide effects described in the studies above include effects on both workers with and without non-compete clauses.

Three additional studies examine the association between non-compete clause use—rather than enforceability—and earnings. Using the 2014 survey described in Part II.B.1.a, Starr et al. find that the use of non-compete clauses is associated with 6.6%

higher earnings in the model including the most control variables among those they observe.[71] Using the Payscale.com data, Balasubramanian et al. find that while non-compete clause use is associated with 2.1-8.2% greater earnings (compared with individuals with no post-contractual restrictions), this positive association is due to non-compete clauses often being bundled with non-disclosure agreements. Compared with individuals only using non-disclosure agreements, use of non-compete clauses is associated with a 3.0-7.3% *decrease* in earnings, though the authors do not disentangle this effect from the effects of use of non-solicitation and non-recruitment provisions.[72] Finally, Lavetti et al. find that use of non-compete clauses among physicians is associated with greater earnings (by 14%) and greater earnings growth.[73] (The Commission notes, however, this study does not consider how changes in non-compete clause enforceability affect physicians' earnings. As described below in the cost-benefit analysis for the proposed rule, the Commission estimates the proposed rule may increase physicians' earnings, though the study does not allow for a precise calculation.[74])

However, the Commission does not believe that studies examining the association between non-compete clause use—rather than enforceability—and earnings are sufficiently probative of the effects of non-compete clauses on earnings. The Commission's concern is that non-compete clause use and earnings may both be determined by one or more confounding factors. It may be the case, for example, that employers who rely most on trade secrets both pay more and use non-compete clauses at

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[71] Starr, Prescott, & Bishara, *supra* note 42 at 75.

[72] Balasubramanian, Starr, & Yamaguchi, *supra* note 42 at 40. The percentage range is calculated as $e^{-0.030}-1$ and $e^{-0.076}-1$, respectively.

[73] Lavetti, Simon, & White, *supra* note 53 at 1051. The increase in earnings is calculated as $e^{0.131}-1$.

[74] *See infra* Part VII.B.1.a.ii.

a high rate (which would not necessarily be captured by the control variables observed in studies of non-compete clause use). This means these studies do not necessarily inform how restricting the use of non-compete clauses through a rule would impact earnings. This methodological limitation contrasts with studies examining enforceability of non-compete clauses, in which changes in enforceability are "natural experiments" that allow for the inference of causal effects, since the likelihood that other variables are driving the outcomes is minimal. A "natural experiment" refers to some kind of change in the real world that allows researchers to study the impact of the change on an outcome. In a natural experiment, the change is effectively random, uninfluenced by other factors which could have simultaneously affected the outcome. In such situations, it is therefore most likely the change itself caused any impact that is observed on the outcomes.

The belief that studies of non-compete clause use do not reflect causal estimates is shared by the authors of at least one of the studies of non-compete clause use. As noted in Starr et al., "Our analysis of the relationships between noncompete use and labor market outcomes . . . is best taken as descriptive and should not be interpreted causally."[75] As a result, the Commission gives these studies minimal weight. The study of physicians conducted by Lavetti et al. partially mitigates this concern by comparing earnings effects in high- versus low-enforceability states, though this analysis compares only California and Illinois, meaning that it is impossible to disentangle underlying differences in those two states from the effects of non-compete clause enforceability.

c. Earnings – Effects on Workers Not Covered by Non-Compete Clauses

[75] Starr, Prescott, & Bishara, *supra* note 42 at 73.

As described above, non-compete clauses negatively affect competition in labor markets, thereby inhibiting optimal matches from being made between employers and workers across the labor force. As a result, non-compete clauses reduce earnings not only for workers who are subject to non-compete clauses, but also for workers who are not subject to non-compete clauses.

Two studies show non-compete clauses reduce earnings for workers who are not subject to non-compete clauses. The first study, a 2019 study of the external effects of non-compete clauses conducted by Evan Starr, Justin Frake, and Rajshree Agarwal, analyzed workers without non-compete clauses who worked in states and industries in which non-compete clauses were used at a high rate.[76] They find that, when the use of non-compete clauses in a given state and industry combination increases by 10%, the earnings of workers who do not have non-compete clauses, but who work in that same state and industry, go down by about 6.12% more when that state has an average enforceability level, compared with a state which does not enforce non-compete clauses.[77] In effect, this study finds when the use of non-compete clauses by employers increases, that drives down wages for workers who do not have non-compete clauses but who work in the same state and industry. This study also finds this effect is stronger where non-compete clauses are more enforceable.

The Commission notes that, similar to some of the studies described above, this study relies on use of non-compete clauses, as well as cross-sectional differences in enforceability of non-compete clauses, to arrive at their conclusions. While this approach

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[76] Evan Starr, Justin Frake, & Rajshree Agarwal, *Mobility Constraint Externalities*, 30 Org. Sci. 961, 6 (2019).

[77] *Id.* at 11.

calls into question the causal relationship outlined in the study, the authors employ tests to increase confidence in the causal interpretation; however, the tests rely on what data the authors have available, and therefore cannot rule out explanations outside of the scope of their data. This study also analyzes the effect of non-compete clause use for certain workers on workers in a different firm, meaning that factors simultaneously driving non-compete clause use and outcomes within a certain firm will not break the causal chain identified in the study.

Starr, Frake, and Agarwal show the reduction in earnings (and mobility, discussed below) is due to a reduction in the rate of the arrival of job offers. Individuals in state/industry combinations which use non-compete clauses at a high rate do not receive job offers as frequently as individuals in state/industry combinations where non-compete clauses are not frequently used.[78] The authors also demonstrate decreased mobility and earnings are *not* due to increased job satisfaction (*i.e.*, if workers are more satisfied with their jobs, they may be less likely to change jobs, and more likely to accept lower pay).[79] Finally, they show that decreased mobility and earnings are not because workers are searching for jobs less frequently, suggesting that job openings and firm behavior matter more to the underlying mechanism.[80]

The second study, conducted by Johnson, Lavetti, and Lipsitz, isolates the impact of a state's enforceability policy on workers not directly affected by that policy to demonstrate non-compete clauses affect not just the workers subject to those non-compete clauses, but the broader labor market as well. In particular, the study finds that

[78] *Id.* at 10.
[79] *Id.* at 13.
[80] *Id.*

increases in non-compete clause enforceability in one state have negative impacts on workers' earnings in bordering states, and the effects are nearly as large as the effects in the state in which enforceability changed. Johnson, Lavetti, and Lipsitz estimate that the impact on earnings of a law change in one state on workers just across that state's border is 87% as great as for workers in the state in which the law was changed (the effect tapers off as the distance to the bordering state increases).[81] When a law change in one state decreases workers' earnings in that state by 4%, that would therefore mean that workers just across the border (*i.e.,* workers who share a commuting zone—a delineation of a local economy[82]—but who live in another state) would experience decreased earnings of 3.5%. The authors conclude that, since the workers across the border are not *directly* affected by the law change (*i.e.*, contracts that they have signed do not become more or less enforceable), this effect must be due to changes in the local labor market.[83]

d. Earnings – Distributional Effects

There is evidence that non-compete clauses increase racial and gender wage gaps by disproportionately reducing the wages of women and non-white workers. This may be, for example, because firms use the monopsony power which results from use of non-compete clauses as a means by which to wage discriminate. The study by Johnson, Lavetti, and Lipsitz finds that while earnings of white men would increase by about 3.2% if a state's enforceability moved from the fifth-strictest to the fifth most lax, the comparable earnings increase for workers in other demographic groups would be 3.7-

[81] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 51. Eighty seven percent is calculated as the coefficient on the donor state NCA score (-.181) divided by the coefficient on own state NCA score (-.207).

[82] See U.S. Econ. Rsch. Serv., Commuting Zones and Labor Market Areas, https://www.ers.usda.gov/data-products/commuting-zones-and-labor-market-areas/.

[83] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 30.

7.7%, depending on the characteristics of the group (though it is not clear from the study whether or not the differences are statistically significant).[84] The authors estimate that banning non-compete clauses nationwide would close racial and gender wage gaps by 3.6-9.1%.[85]

e. Job Creation

While non-compete clauses may theoretically incentivize firms to create jobs by increasing the value associated with any given worker covered by a non-compete clause, the evidence is inconclusive. One study, by Gerald Carlino, estimates the job creation rate at startups increased by 7.8% when Michigan increased non-compete clause enforceability.[86] However, the job creation rate calculated in this study is the ratio of jobs created by startups to overall employment in the state: therefore, the job creation rate at startups may rise either because the number of jobs created by startups rose, or because employment overall fell. The study does not investigate which of these two factors drives the increase in the job creation rate at startups.

Another study finds that several increases in non-compete clause enforceability were associated with a 1.4% increase in average per-firm employment at new firms (though not necessarily total employment).[87] In this study, the authors attribute the increase in average employment to a change in the composition of newly founded firms. The increases in non-compete clause enforceability prevented the entry of relatively small startups which would otherwise have existed. Therefore, the firms which entered in

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[84] *Id.* at 38.

[85] *Id.*

[86] Gerald A. Carlino, *Do Non-Compete Covenants Influence State Startup Activity? Evidence from the Michigan Experiment* at 16 (Fed. Reserve Bank of Phila. Working Paper 21-26, 2021).

[87] Evan Starr, Natarajan Balasubramanian, & Mariko Sakakibara, *Screening Spinouts? How Noncompete Enforceability Affects the Creation, Growth, and Survival of New Firms*, 64 Mgmt. Sci. 552, 561 (2018).

spite of increases in non-compete clause enforceability had more workers on average: this increased the average job creation rate at new firms, because the average entering firm was relatively larger. However, if the mechanism identified by the authors is correct, increases in enforceability generate fewer total jobs, because the same number of large firms may enter (regardless of non-compete clause enforceability), but fewer small firms enter.

A similar mechanism may explain the results in both studies above. If that is indeed the case, then an increase in average per-firm employment among startups is not a positive effect of non-compete clause enforceability: instead, it could actually represent a negative effect, since non-compete clauses prevent small firms from existing in the first place, and overall job creation may decrease. The Commission therefore believes, with respect to job creation rates, the evidence is inconclusive.

2. Product and Service Markets

In addition to analyzing how non-compete clauses affect competition in labor markets, researchers have also analyzed whether non-compete clauses affect competition in markets for products and services. The available evidence indicates the use of non-compete clauses interferes with competitive conditions in product and service markets as well.

The adverse effects of non-compete clauses on product and service markets likely result from reduced voluntary labor mobility. Non-compete clauses directly impede voluntary labor mobility by restricting workers subject to non-compete clauses from moving to new jobs covered by their non-compete clause. Since non-compete clauses prevent some job openings from occurring (by keeping workers in their jobs), they also prevent workers who are not subject to non-compete clauses from finding new jobs (since the new jobs are already occupied by workers with non-compete clauses).

Influenced by Ronald Gilson's research positing that high-tech clusters in California may have been aided by increased labor mobility because non-compete clauses are generally unenforceable in that state,[88] many studies have examined how non-compete clauses affect labor mobility. Even literature primarily focused on other outcomes has examined labor mobility as a secondary outcome. Across the board, all studies have found decreased rates of mobility, measured by job separations, hiring rates, job-to-job mobility, implicit mobility defined by job tenure, and within- and between-industry mobility. We briefly describe each of these studies in turn.

A 2006 study conducted by Fallick, Fleischman, and Rebitzer supported Gilson's hypothesis by showing that labor mobility in information technology industries in metropolitan statistical areas (MSAs) in California was 56% higher than in comparison MSAs outside California. They note, however, the estimates may not be fully (or at all) attributable to non-compete clause enforceability. Although the Commission therefore does not find this particular study to be sufficiently probative of the relationship between non-compete clauses and labor mobility, its qualitative findings are in line with the rest of the literature.[89]

To estimate the impacts of non-compete clause enforceability in a fashion that may more plausibly attribute causality to the relationship, in 2009, Marx, Strumsky, and

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[88] Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Non-Compete Clauses*, 74 N.Y.U. L. Rev. 575 (1999).

[89] Bruce Fallick, Charles A. Fleischman, & James B. Rebitzer, *Job-Hopping in Silicon Valley: Some Evidence Concerning the Microfoundations of a High-Technology Cluster*, 88 Rev. Econ. & Statistics 472, 477 (2006).

Fleming examined the impact on labor mobility of Michigan's switch to enforcing non-compete clauses. They found that Michigan's increase in enforceability led to an 8.1% decline in the mobility of inventors.[90]

In 2011, Mark Garmaise examined how a suite of changes in non-compete clause enforceability affected labor mobility. Garmaise found executives made within-industry job changes 47% more often, between-industry job changes 25% more often (though this result was not statistically significant), and any job change 35% more often when non-compete clauses were less enforceable.[91]

A 2019 study by Jessica Jeffers uses several legal changes to analyze the impact of non-compete clauses on workers' mobility, finding that decreases in non-compete clause enforceability were associated with an 8.6% increase in departure rates of workers, and a 15.4% increase in within-industry departure rates of workers.[92]

Evan Starr's 2019 study comparing workers in occupations which use non-compete clauses at a high versus low rate found that a state moving from mean enforceability to no enforceability would cause a decrease in employee tenure for workers in high-use occupations of 8.2%, compared with those in low-use occupations. Here, tenure serves as a proxy for mobility, since tenure is the absence of prior mobility.[93]

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[90] Matt Marx, Deborah Strumsky, & Lee Fleming, *Mobility, Skills, and the Michigan Non-Compete Experiment*, 55 Mgmt. Sci. 875, 884 (2009).

[91] Garmaise, *supra* note 69 at 398.

[92] Jessica Jeffers, *The Impact of Restricting Labor Mobility on Corporate Investment and Entrepreneurship* 22 (2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3040393.

[93] Starr, *supra* note 66 at 798. The value is calculated as 8.2%=0.56/6.46, where 0.56 is the reported impact on tenure and 6.46 is mean tenure in the sample.

Returning to an examination of executives, Liyan Shi's 2020 paper qualitatively confirmed Garmaise's results, showing that executives with enforceable non-compete clauses were 1.8 percentage points less likely to separate from their employers, compared with executives without enforceable non-compete clauses.[94]

Starr, Prescott, and Bishara's 2020 study found that having a non-compete clause was associated with a 35% decrease in the likelihood a worker would leave for a competitor.[95] However, they also found enforceability does not impact this prediction, in contrast with prior studies. Digging deeper into the mechanism, they find that what matters is the worker's belief about the likelihood their employer would seek to enforce a non-compete clause in court. Workers who did not believe employers would enforce non-compete clauses in court were more likely to report they would be willing to leave for a competitor.[96] This result confirms the need to ensure that workers are aware of the proposed rule, though it suffers from the same limitations as do previously discussed studies of the impacts of non-compete clause use, rather than enforceability: that studies of use are not causally interpretable, since they may conflate the effects of factors which cause use for the effects of use itself.

Two recent studies examined subgroups of the population affected by state law changes. Balasubramanian et al., in 2022, focused on high-tech workers whose non-compete clauses were banned in Hawaii, and Lipsitz and Starr, in 2022, focused on hourly workers whose non-compete clauses were banned in Oregon. The former found

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[94] Shi, *supra* note 51 at 26.
[95] Evan Starr, J.J. Prescott, & Norm Bishara, *The Behavioral Effects of (Unenforceable) Contracts*, 36 J. L., Econ., & Org. 633, 652 (2020).
[96] *Id.* at 664.

that the ban increased mobility by 12.5% in the high-tech sector,[97] while the latter found that mobility of hourly workers increased by 17.3%.[98]

Finally, a 2022 study by Johnson, Lavetti, and Lipsitz examined the impact on labor mobility of all legal changes after 1991 across the entire labor force. They found moving from the enforceability level of the fifth strictest state to that of the fifth most lax state causes a 6.0% increase in job-to-job mobility in industries using non-compete clauses at a high rate.[99] Furthermore, they found when a state changes its non-compete clause enforceability in that fashion, workers in neighboring states experience 4.8% increases in mobility as measured by job separations, and 3.9% increases as measured by hiring rates, though neither result was statistically significant.[100]

As described below in Part IV.A.1.a.ii, the Commission does not view reduced labor mobility from non-compete clauses—in and of itself—as evidence non-compete clauses negatively affect competition in product and service markets. Instead, reduced labor mobility is best understood as the primary driver of effects in product and service markets that the Commission is concerned about. These effects are described below.

a. Consumer Prices and Concentration

There is evidence that non-compete clauses increase consumer prices and concentration in the health care sector. There is also evidence non-compete clauses increase industrial concentration more broadly. Non-compete clauses may have these effects by inhibiting entrepreneurial ventures (which could otherwise enhance

[97] Balasubramanian et al., *supra* note 68 at S351.
[98] Lipsitz & Starr, *supra* note 46 at 157.
[99] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 21.
[100] *Id.* at 76.

competition in goods and service markets) or by foreclosing competitors' access to talented workers.

One study, by Naomi Hausman and Kurt Lavetti, finds increased concentration, as measured by the Herfindahl-Hirschman Index (HHI), at the firm level[101] and increased final goods prices[102] as the enforceability of non-compete clauses increases. Hausman and Lavetti's study focuses on physician markets, showing that while non-compete clauses allow physician practices to allocate clients more efficiently across physicians, this comes at the cost of greater concentration and prices for consumers. Generally, greater concentration may or may not lead to greater prices in all situations and may arise for reasons which simultaneously cause higher prices (indicating, therefore, a noncausal relationship between concentration and prices). In this case, the authors claim that researching the direct link between changes in law governing non-compete clauses and changes in concentration allows them to identify a causal chain starting with greater enforceability of non-compete clauses, which leads to greater concentration, and higher consumer prices.

While there is no additional direct evidence on the link between non-compete clauses and consumer prices, another study, by Michael Lipsitz and Mark Tremblay, shows increased enforceability of non-compete clauses at the state level increases

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[101] Naomi Hausman & Kurt Lavetti, *Physician Practice Organization and Negotiated Prices: Evidence from State Law Changes*, 13 Am. Econ. J. Applied Econ. 258, 284 (2021). Note that Hausman and Lavetti find decreased HHI at the establishment level (where an establishment is a physical location, and a firm is a company which may own multiple establishments). For the purposes of consumer outcomes such as a price or product quality, the relevant measure of concentration is at the firm level, since firms are unlikely to compete against themselves on price or quality.

[102] *Id.* at 280.

concentration, as measured by an employment-based HHI.[103] Lipsitz and Tremblay theorize non-compete clauses inhibit entrepreneurial ventures which could otherwise enhance competition in goods and service markets, and show that the potential for harm is greatest in exactly those industries in which non-compete clauses are likely to be used at the highest rate.[104] If the general causal link governing the relationship between enforceability of non-compete clauses, concentration, and consumer prices acts similarly to that identified in the study by Hausman and Lavetti, then it is plausible that increases in concentration identified by Lipsitz and Tremblay would lead to higher prices in a broader set of industries.

In many settings, it is also theoretically plausible that increases in worker earnings from restricting non-compete clauses may increase consumer prices by raising firms' costs (though there is countervailing evidence, especially in goods manufacturing[105]). However, we are not aware of empirical evidence that this occurs, and there are also countervailing forces—such as the impacts on concentration described above and positive impacts on innovation[106]—that would tend to decrease consumer prices. Additionally, the greater wages observed for workers where non-compete clauses are less enforceable may be due to better worker-firm matching, which could simultaneously increase wages and increase productivity, which could lead to lower prices.

In addition, the only study of how non-compete clauses affect prices—the Hausman and Lavetti study described above—finds decreased non-compete clause

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[103] Michael Lipsitz & Mark Tremblay, *Noncompete Agreements and the Welfare of Consumers* 6 (2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3975864.
[104] *Id.* at 3.
[105] Sebastian Heise, Fatih Karahan, & Ayşegül Şahin *The Missing Inflation Puzzle: The Role of the Wage-Price Pass-Through*, 54 J. Money, Credit & Banking 7 (2022).
[106] *See infra* Part II.B.2.d.

enforceability decreases prices in the healthcare market, rather than increasing them. The study notes that, in theory, changes in non-compete clause enforceability could impact physicians' earnings, which could subsequently pass through to prices in healthcare markets. However, the authors show that, where prices decrease due to decreased non-compete clause enforceability, labor cost pass-through is not driving price decreases. As the authors note, if price decreases associated with non-compete clause enforceability decreases were due to pass-through of decreases in physicians' earnings, then the most labor-intensive procedures would likely experience the greatest price decreases when enforceability decreased. However, they find the opposite: there is little to no effect on prices for the most labor-intensive procedures, in contrast with procedures which use relatively less labor. As the authors explain, this shows that decreases in healthcare prices associated with decreases in non-compete clause enforceability are not due to pass-through of lower labor costs.[107]

b. Foreclosing Competitors' Ability to Access Talent

There is evidence that non-compete clauses foreclose the ability of competitors to access talent by effectively forcing future employers to buy out workers from their non-compete clauses if they want to hire them. Firms must either make inefficiently high payments to buy workers out of non-compete clauses with a former employer, which leads to deadweight economic loss, or forego the payment—and, consequently, the access to the talent the firm seeks. Whatever choice a firm makes, its economic outcomes in the market are harmed, relative to a scenario in which no workers are bound by non-compete clauses.

[107] Hausman & Lavetti, *supra* note 101 at 278.

Liyan Shi studies this effect in a 2022 paper. This paper finds non-compete clauses are used to ensure that potential new employers of executives make a buyout payment to the executive's current employer.[108] Such a mechanism could be tempered by the ability of a labor market to provide viable alternative workers for new or competing businesses. However, when a particular type of labor is somewhat scarce, when on-the-job experience matters significantly, or when frictions prevent workers from moving to new jobs, there is no way for the market to fill the gap created by non-compete clauses. By studying CEOs, who are difficult to replace and relatively scarce, Shi's paper shows that non-compete clauses foreclose the ability of competitors to access talent by effectively forcing them to make inefficiently high buyout payments. Shi ultimately concludes that "imposing a complete ban on noncompete clauses would be close to implementing the social optimum."[109]

c. New Business Formation

The weight of the evidence indicates non-compete clauses likely have a negative impact on new business formation. Three studies show that non-compete clauses and increased enforceability of non-compete clauses reduce entrepreneurship, new business formation, or both. A fourth study also finds that non-compete clauses reduce the rate at which men and women found new startups, though the result is not statistically significant for men. A fifth study finds mixed effects which likely support the theory that non-compete clauses reduce new business formation, and a sixth study finds no effect.

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[108] Shi, *supra* note 51.
[109] *Id.* at 35.

New business formation may refer to entrepreneurs creating new businesses from scratch or to businesses being spun off from existing businesses. New business formation increases competition first by bringing new ideas to market, and second, by forcing incumbent firms to respond to new firms' ideas instead of stagnating. New businesses disproportionately create new jobs and are, as a group, more resilient to economic downturns.[110] Recent evidence that new business formation is trending downward has led to concerns that productivity and technological innovation are not as strong as they would have been had new business formation remained at higher levels.[111] Non-compete clauses restrain new business formation by preventing workers subject to non-compete clauses from starting their own businesses. In addition, firms are more willing to enter markets in which they know there are potential sources of skilled and experienced labor, unhampered by non-compete clauses.

Three studies show that non-compete clauses and increased enforceability of non-compete clauses reduce entrepreneurship and new business formation. First, Sampsa Samila and Olav Sorenson, in a 2011 study, examined the differential impacts of venture capital on business formation, patenting, and employment growth. They found when non-compete clauses are more enforceable, rates of entrepreneurship, patenting, and employment growth slow. They find that a 1% increase in venture capital funding increased the number of new firms by 0.8% when non-compete clauses were enforceable,

[110] *See, e.g.*, *The Importance of Young Firms for Economic Growth*, Policy Brief, Ewing Marion Kauffman Foundation (Sept. 24, 2015).
[111] *See, e.g.*, Cong. Budget Off., *Federal Policies in Response to Declining Entrepreneurship* (December 2020).

and by 2.3% when non-compete clauses were not enforceable.[112] Similarly, a 1% increase in the rate of venture capital funding increased employment by 0.6% when non-compete clauses were enforceable, versus 2.5% where non-compete clauses were not enforceable.[113]

The second study, conducted by Jessica Jeffers in 2019, uses several state law changes to show a decline in new firm entry when non-compete clauses are more enforceable. When non-compete clause enforceability is made stricter (based on the relatively meaningful changes examined in her study), the entry rate of new firms decreased by 10% in the technology sector and the professional, scientific, and technical services sector.[114]

The third study, conducted by Evan Starr, Natarajan Balasubramanian, and Mariko Sakakibara in 2018, finds that the rate of within-industry spinouts (WSOs) decreases by 0.13 percentage points (against a mean of 0.4%) when non-compete clause enforceability increases by one standard deviation.[115] The study's measured impact on the entry rate of non-WSOs (*i.e.,* spinoffs into other industries) is statistically indistinguishable from zero (0.07 percentage point increase associated with a one standard deviation increase in enforceability).[116] WSOs have been shown to be highly successful, on average, when compared with typical entrepreneurial ventures.[117] By

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[112] Sampsa Samila & Olav Sorenson, *Noncompete Covenants: Incentives to Innovate or Impediments to Growth*, 57 Mgmt. Sci. 425, 432 (2011). The values are calculated as $0.8\%=e^{0.00755}-1$ and $2.3\%=e^{0.00755+0.0155}-1$, respectively.

[113] *Id.* at 433. The values are calculated as $0.6\%=e^{0.00562}-1$ and $2.3\%=e^{0.00562+0.0192}-1$, respectively.

[114] Jeffers, *supra* note 92 at 32.

[115] Starr, Balasubramanian, & Sakakibara, *supra* note 87 at 561.

[116] *Id.* at 561.

[117] For reviews of the literature, *see, e.g.*, Steven Klepper, *Spinoffs: A Review and Synthesis*, 6 European Mgmt. Rev. 159–71 (2009) and April Franco, *Employee Entrepreneurship: Recent Research and Future Directions*, in Handbook of Entrepreneurship Research (2005) 81–96.

reducing intra-industry spinoff activity, non-compete clauses prevent entrepreneurial activity that is likely to be highly successful.

The fourth study, published by Matt Marx in 2021, examines the impact of several changes in non-compete clause enforceability between 1991 and 2014.[118] Marx finds that, when non-compete clauses are more enforceable, men are 46% less likely to found a rival startup after leaving their employer (though this result is statistically insignificant), that women are 69% less likely to do so, and that the difference in the effect of non-compete clause enforceability on founding rates between men and women *is* statistically significant.[119] This study therefore supports both the theory that non-compete clauses inhibit new business formation and that non-compete clauses tend to have more negative impacts for women than for men.

A fifth study finds mixed effects of non-compete clause enforceability on the entry of businesses into the State of Florida. Hyo Kang and Lee Fleming, in a 2020 study, examine a legal change in Florida which made non-compete clauses more enforceable. This study finds that larger businesses entered the state more frequently (by 8.5%), but smaller businesses entered less frequently (by 5.6%) following the change.[120] Similarly, Kang and Fleming found that employment at large businesses rose by 15.8% following the change, while employment at smaller businesses effectively did not change.[121]

In the Commission's view, however, the results of this study do not necessarily show how non-compete clauses affect new business formation. This study does not

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[118] Matt Marx, *Employee Non-compete Agreements, Gender, and Entrepreneurship,* Org. Sci. (Online ahead of print) (2021).
[119] *Id.* at 9.
[120] Hyo Kang & Lee Fleming, *Non-Competes, Business Dynamism, and Concentration: Evidence From a Florida Case Study*, 29 J. Econ. & Mgmt. Strategy 663, 673 (2020).
[121] *Id.* at 674. The value is calculated as $15.8\%=e^{0.1468}-1$.

examine new business formation specifically; instead, it assesses the number of "business entries" into the state. As the authors acknowledge, many of these business entries are not new businesses being formed in Florida (*i.e.*, startups), but existing businesses that are moving to the state.[122] Because startups are almost never large businesses, the authors' finding that larger businesses entered the state more frequently is much more likely to reflect businesses moving to the state, rather than new businesses being formed in the state. (While a business's relocation to Florida may benefit Florida, it is not net beneficial from a national perspective, since the business is simply moving from somewhere else.) The authors' finding that increased non-compete clause enforceability decreased the entry of smaller businesses is more likely to reflect an effect of non-compete clause enforceability on new business formation, since smaller businesses are relatively more likely than larger businesses to be startups.

A sixth study finds no effect of non-compete clauses on new business formation. A 2021 study by Gerald Carlino analyzes the impact of a legal change in Michigan that allowed the courts to enforce non-compete clauses. This study finds no significant impact on new business formation.[123]

d. Innovation

The weight of the evidence indicates non-compete clauses decrease innovation. Innovation may directly improve economic outcomes by increasing product quality or decreasing prices, or may promote competition because successful new products and services force competing firms to improve their own products and services. Non-compete

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[122] *Id.* at 668.
[123] Carlino, *supra* note 86 at 36.

clauses affect innovation by reducing the movement of workers between firms, which decreases knowledge flow between firms. Non-compete clauses also prevent workers from starting businesses in which they can pursue innovative new ideas.

One study shows increased enforceability of non-compete clauses decreases the value of patenting, using a variety of legal changes. Another study shows that increased non-compete clause enforceability decreases the rate at which venture capital funding increases patenting. Finally, using a legal change in Michigan which increased enforceability, one study shows there were mixed effects on patenting in terms of both quantity and quality, but mechanical patenting (a large part of patenting in Michigan) increased.

The first study, a 2021 study by Zhaozhao He, finds the value of patents, relative to the assets of the firm, increase by about 31% when non-compete clause enforceability decreases.[124] In contrast to the other two studies of innovation, the study uses the value of patents, rather than the number of patents, to mitigate concerns that patenting activity may not represent innovation, but rather substitutions of protections (in other words, that when non-compete clauses are made less enforceable, firms may use patents instead of non-compete clauses to seek to protect sensitive information).[125] The study also analyzes the impact of several legal changes to non-compete clause enforceability, which means that the results may be most broadly applicable.

The second study, by Samila and Sorensen, found that, when non-compete clauses are enforceable, venture capital induced less patenting, by 6.6 percentage points.[126]

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[124] Zhaozhao He, *Motivating Inventors: Non-Competes, Innovation Value and Efficiency* 21 (2021), https://ssrn.com/abstract=3846964. Thirty one percent is calculated as $e^{0..272}$-1.

[125] *Id.* at 17.

[126] Samila & Sorenson, *supra* note 112 at 432. The value is calculated as $6.6\%=e^{0.0208+0.0630}-e^{0.0208}$.

However, as explained above, the authors note patenting may or may not reflect the true level of innovation, as firms may use patenting as a substitute for non-compete clauses where they seek to protect sensitive information.[127]The final study of innovation, a 2021 study by Gerald Carlino, examined how patenting activity in Michigan was affected by an increase in non-compete enforceability. The study finds that mechanical patenting increased following the law change, but drug patenting fell, and the quality of computer patents fell (as measured by citations).[128] The increase in mechanical patenting appears to have primarily occurred approximately 14 years after non-compete clause enforceability changed, however, suggesting some other mechanism may have led to the increase in patenting activity.[129] We place relatively greater weight on studies focused on multiple legal changes to non-compete clause enforceability (such as the above referenced study by He), in which factors unrelated to the legal changes at issue are less likely to drive the results. The Carlino study also does not discuss whether patenting activity is an appropriate measure of innovation, though the other two studies suggest that it may be an unreliable measure at best. The study by Samila and Sorensen examines the enforceability of non-compete clauses across all states but does not consider changes in enforceability: they are therefore unable to rule out that their results could be due to underlying differences in the states rather than non-compete clause enforceability.

The Commission therefore places greatest weight on the study by He, which suggests innovation is largely harmed by non-compete clause enforceability. Though the

[127] *Id.*
[128] Carlino, *supra* note 86 at 40.
[129] *Id.* at 48.

results from Carlino countervail this finding, those results are subject to criticism (as is the corroborating evidence found in Samila and Sorensen).

Two additional studies address firm strategies related to innovation. The first, by Raffaele Conti, uses two changes in non-compete clause enforceability (in Texas and Florida), and indicates that firms engage in riskier strategies with respect to research and development when non-compete clause enforceability is greater.[130] Riskier research and development strategies lead to more breakthrough innovations, but also lead to more failures, leaving the net impact unclear. The paper does not quantify the total impact on innovation.

The second, by Fenglong Xiao, found increases in non-compete clause enforceability led to increases in exploitative innovation (*i.e.*, innovation which stays within the bounds of the innovating firm's existing competences), and decreases in exploratory innovation (*i.e.*, innovation which moves outside those bounds) in medical devices.[131] Overall, this leads to an increase in the quantity of innovation as measured by the introduction of new medical devices. This increase in quantity, however, is the net result of an increase in exploitative innovation and a decrease in explorative innovation, where the latter is the mode of innovation which the empirical literature has found to be associated with high growth firms.[132]

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[130] Raffaele Conti, *Do Non-Competition Agreements Lead Firms to Pursue Riskier R&D Strategies?*, 35 Strategic Mgmt. J. 1230 (2014).

[131] Fenglong Xiao, *Non-Competes and Innovation: Evidence from Medical Devices*, 51 Rsch. Pol'y 1 (2022).

[132] Alessandra Colombelli, Jackie Krafft & Francesco Quatraro, *High-Growth Firms and Technical Knowledge: Do Gazelles Follow Exploration or Exploitation Strategies?*, 23.1 Industrial and Corporate Change 262 (2014).

While these two additional studies bring nuance to the changes in the types of innovation pursued by firms when non-compete clause enforceability changes, neither undermines the weight of the evidence described above: that increased non-compete clause enforceability broadly diminishes the rate of innovation.

e. Training and Other Investment

There is evidence that non-compete clauses increase employee training and other forms of investment. Four studies have examined investment outcomes: two examine the effects of non-compete clause enforceability on investment (both of which find positive impacts on investment), while two examine the relationship between non-compete clause use and investment (only one of which finds positive impacts on investment).

Of the two studies that examine the effects of non-compete clause enforceability on investment, one looks at employee training, and one looks at firm capital expenditures (*e.g.*, investment in physical assets, such as machines). The first study, a 2020 study by Evan Starr, finds that moving from mean non-compete clause enforceability to no non-compete clause enforceability would decrease the number of workers receiving training by 14.7% in occupations that use non-compete clauses at a high rate (relative to a control group of occupations that use non-compete clauses at a low rate).[133] The study further finds changes in training are primarily due to changes in firm-sponsored, rather than employee-sponsored, training.[134] Firm-sponsored training is the type of training non-compete clauses are often theorized to protect, as the firm may be unwilling to make an unprotected investment.

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[133] Starr, *supra* note 66 at 796–97.
[134] *Id.* at 797.

The second study, a 2021 study by Jessica Jeffers, finds knowledge-intensive firms invest 32% less in capital equipment following decreases in the enforceability of non-compete clauses.[135] While firms may invest in capital equipment for many different reasons, Jeffers examines this outcome (as opposed to labor-focused outcomes) to avoid looking at research and development expenditure as a whole, which is in large part composed of labor expenses. This allows the study to isolate the effects of non-compete clause enforceability on investment from other effects of non-compete clauses, such as reduced worker earnings. Jeffers finds that there are likely two mechanisms driving these effects: first, that firms may be more likely to invest in capital when they train their workers because worker training and capital expenditure are complementary (*i.e.*, the return on investment in capital equipment is greater when workers are more highly trained); and second, that non-compete clauses reduce competition, and firms' returns to capital expenditure are greater when competition is lower, incentivizing firms to invest more in capital.[136]

The first study that examines the impact of non-compete clause use on investment is a 2021 study by Starr et. al. using their 2014 survey of non-compete clause use. They find no statistically significant impact on either training or the sharing of trade secrets (after inclusion of control variables) but cannot examine other investment outcomes.[137] The second study, a 2021 study by Johnson and Lipsitz, examines investment in the hair salon industry. It finds that firms that use non-compete clauses train their employees at a higher rate and invest in customer attraction through the use of digital coupons (on so-

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[135] Jeffers, *supra* note 92 at 28.
[136] *Id.* at 29.
[137] Starr, Prescott, & Bishara, *supra* note 42 at 76.

called “deal sites”) to attract customers at a higher rate, both by 11 percentage points.[138] However, the authors of both studies caution that these results do not necessarily represent a causal relationship.[139] In each study, the use of non-compete clauses and the decision to invest may be jointly determined by other characteristics of the firms, labor markets, or product markets. For this reason, the Commission places relatively minimal weight on these studies in terms of how they inform the relationship between the proposed rule and future potential firm investment.

Overall, the additional incentive to invest (in assets like physical capital, human capital, or customer attraction, or in the sharing of trade secrets and confidential commercial information) is the primary justification for use of non-compete clauses. Any investment which is lost due to the inability of firms to use non-compete clauses would likely represent the greatest cost of the proposed rule. Indeed, one study, by Kenneth Younge and Matt Marx, finds that the value of publicly traded firms increased by 9% due to an increase in non-compete clause enforceability.[140] However, they attribute this increase to the value of retaining employees, which comes with the negative effects to parties other than the firm (employees, competitors, and consumers) described in this Part II.B. In particular, if benefits to the firm arise primarily from reductions in labor costs, then the increase in the value of firms is in part a transfer from workers to firms, and is therefore not necessarily a procompetitive benefit of non-compete clauses. However, the authors do not explore the extent to which increases in firm value arise from decreases in labor costs. The authors additionally note that since the time frame used in the study is

[138] Johnson & Lipsitz, *supra* note 54 at 711.
[139] Starr, Prescott, & Bishara, *supra* note 42 at 73; Johnson & Lipsitz, *supra* note 54 at 711.
[140] Kenneth A. Younge & Matt Marx, *The value of employee retention: evidence from a natural experiment*, 25 J. Econ. & Mgmt. Strategy 652 (2016).

short, "there may be deleterious effects of non-competes in the long run" which are absent in their findings.[141]

The Commission requests comment on all aspects of its description, in this Part II.B, of the empirical evidence relating to non-compete clauses and their effects on competition. In particular, the Commission seeks submissions of additional data that could inform the Commission's understanding of these effects.

C. Current Law Governing Non-Compete Clauses

The states have always placed a variety of restrictions on the ability of employers to enforce non-compete clauses. These restrictions are based on public policy concerns American courts—and English courts before them—have recognized for centuries. For example, in the English opinion *Mitchel v. Reynolds* (1711), which provided the foundation for the American common law on non-compete clauses,[142] the court expressed concerns that workers were vulnerable to exploitation under non-compete clauses and these clauses threatened workers' ability to practice their trades and earn a living.[143]

Today, while the enforceability of non-compete clauses varies between states, all fifty states restrict non-compete clauses between employers and workers to some degree.[144] Non-compete clauses between employers and workers are generally subject to

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[141] *Id.* at 674.

[142] Harlan Blake, *Employment Agreements Not to Compete*, 73 Harv. L. Rev. 625, 630–31 (1960).

[143] *Mitchel v. Reynolds*, 1 P. Wms. 181, 190 (Q.B. 1711) (expressing concern that non-compete clauses threaten "the loss of [the worker's] livelihood, and the subsistence of his family," and also "the great abuses these voluntary restraints are liable to," for example, "from masters, who are apt to give their apprentices much vexation" by using "many indirect practices to procure such bonds from them, lest they should prejudice them in their custom, when they come to set up for themselves.").

[144] Cynthia Estlund, *Between Rights and Contract: Arbitration Agreements and Non-Compete Covenants as a Hybrid Form of Employment Law*, 155 U. Pa. L. Rev. 379, 391 (2006).

greater scrutiny under state common law than other employment terms, due to "the employee's disadvantageous bargaining position at the time of contracting and hardship at the time of enforcement."[145] For these reasons, state courts often characterize non-compete clauses as "disfavored."[146]

In addition to state common law, non-compete clauses have always been considered proper subjects for scrutiny under the nation's antitrust laws.[147]

1. State Law on Non-Compete Clauses

The question of whether or under what conditions an employer can enforce a particular non-compete clause depends on the applicable state law. Three states—California, North Dakota, and Oklahoma—have adopted statutes rendering non-compete clauses void for nearly all workers.[148] Among the 47 states where non-compete clauses may be enforced under certain circumstances, 11 states and the District of Columbia have enacted statutes making non-compete clauses void or unenforceable—or have banned

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[145] *Id. See also* Restatement (Second) of Contracts sec. 188, cmt. g (1981) ("Postemployment restraints are scrutinized with particular care because they are often the product of unequal bargaining power and because the employee is likely to give scant attention to the hardship he may later suffer through loss of his livelihood.").

[146] *See, e.g.*, *Navarre Chevrolet, Inc. v. Begnaud*, 205 So. 3d 973, 975 (La. Ct. App. 3d 2016); *Eastman Kodak Co. v. Carmosino*, 77 A.D.3d 1434, 1435 (N.Y. App. Div. 4th 2010); *Access Organics, Inc. v. Hernandez*, 175 P.3d 899, 904 (Mont. 2008); *Bybee v. Isaac*, 178 P.3d 616, 621 (Idaho 2008); *Softchoice, Inc. v. Schmidt*, 763 N.W.2d 660, 666 (Minn. Ct. App. 2009).

[147] *See, e.g.*, *Am. Tobacco Co.*, 221 U.S. at 181–83 (holding several tobacco companies violated Sections 1 and 2 of the Sherman Act due to the collective effect of six of the companies' practices, one of which was the "constantly recurring" use of non-compete clauses); *Newburger, Loeb & Co., Inc.*, 563 F.2d at 1082 ("Although such issues have not often been raised in the federal courts, employee agreements not to compete are proper subjects for scrutiny under section 1 of the Sherman Act. When a company interferes with free competition for one of its former employee's services, the market's ability to achieve the most economically efficient allocation of labor is impaired. Moreover, employee-noncompetition clauses can tie up industry expertise and experience and thereby forestall new entry.") (internal citation omitted).

[148] *See* Cal. Bus. & Prof. Code sec. 16600; N.D. Cent. Code sec. 9-08-06; Okla. Stat. Ann. tit. 15, sec. 219A. While California law permits non-compete clauses if they are necessary to protect an employer's trade secrets, *see Muggill v. Reuben H. Donnelley Corp.*, 62 Cal. 2d 239, 242 (Cal. 1965), the scope of this exception is unclear. In a recent case, the California Supreme Court declined to address the issue. *Edwards v. Arthur Andersen LLP*, 189 P.3d 285, 289 n.4 (Cal. 2008).

employers from entering into non-compete clauses—based on the worker's earnings or a similar factor.[149] In addition, the majority of these 47 states have statutory provisions that ban or limit the enforceability of non-compete clauses for workers in certain specified occupations. In most states, those limits apply to just one or two occupations (most commonly, physicians).[150]

States have been particularly active in restricting non-compete clauses in recent years. Of the twelve state statutes restricting non-compete clauses based on a worker's earnings or a similar factor (including the D.C. statute), eleven were enacted in the past ten years.[151] States have also recently passed legislation limiting the use of non-compete

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[149] Colorado, Colo Rev. Stat. Ann. sec. 8-2-113(2)(a)–(b), as amended by H.B. 22-1317 (effective Aug. 10, 2022) (non-compete clauses are void except where they apply to a "highly compensated worker," currently defined as a worker earning at least $101,250 annually, *see* Colo. Code Regs. sec. 1103-14:1.2); District of Columbia, D.C. Code sec. 32-581.02(a)(1) (effective Oct. 1, 2022) (where the employee's compensation is less than $150,000, or less than $250,000 if the employee is a medical specialist, employers may not require or request that the employee sign an agreement or comply with a workplace policy that includes a non-compete clause); Illinois, 820 Ill. Comp. Stat. 90/10(a) (effective Jan. 1, 2017) (no employer shall enter into a non-compete clause unless the worker's actual or expected earnings exceed $75,000/year); Maine, Me. Rev. Stat. Ann. tit. 26, sec. 599-A(3) (effective Sep. 19, 2019) (an employer may not require or permit an employee earning wages at or below 400% of the federal poverty level to enter into a non-compete clause with the employer); Maryland, Md. Code Ann., Lab. & Empl. sec. 3-716(a)(1)(i) (effective Oct. 1, 2019) (non-compete clauses are void where an employee earns equal to or less than $15 per hour or $31,200 per year); Massachusetts, Mass. Gen. Laws Ann. ch. 149, sec. 24L(c) (effective Jan. 14, 2021) (non-compete clauses shall not be enforceable against workers classified as nonexempt under the Fair Labor Standards Act ("FLSA")); Nevada, Nev. Rev. Stat. sec. 613.195(3) (effective Oct. 1, 2021) (non-compete clauses may not apply to hourly workers); New Hampshire, N.H. Rev. Stat. Ann. sec. 275:70-a(II) (effective Sept. 8, 2019) (employers shall not require a worker who earns an hourly rate less than or equal to 200% of the federal minimum wage to enter into a non-compete clause, and non-compete clauses with such workers are void and unenforceable); Oregon, Or. Rev. Stat. sec. 653.295(1)(e) (effective Jan. 1, 2022) (non-compete clauses are void and unenforceable except where the worker's annualized gross salary and commissions at the time of the worker's termination exceed $100,533); Rhode Island, R.I. Gen Laws sec. 28-59-3(a)(1) (effective Jan. 15, 2020) (non-compete clauses shall not be enforceable against workers classified as nonexempt under the FLSA); Virginia, Va. Code Ann. sec. 40.1-28.7:8(B) (effective July 1, 2020) (no employer shall enter into, enforce, or threaten to enforce a non-compete clause with an employee whose average weekly earnings are less than the Commonwealth's average weekly wage); Washington, Wash. Rev. Code Ann. sec. 49.62.020(1)(b) and 49.62.030(1) (effective Jan. 1, 2020) (non-compete clause is void and unenforceable unless worker's annualized earnings exceed $100,000 for employees and $250,000 for independent contractors, to be adjusted for inflation).

[150] *See* Russell Beck, Beck Reed Riden LLP, *Employee Noncompetes: A State-by-State Survey* (August 17, 2022), (hereinafter "Beck Reed Riden Chart").

[151] *See supra* note 149.

clauses for certain occupations.[152] Other recent state legislation has imposed additional requirements on employers that use non-compete clauses. For example, Oregon, Maine, Massachusetts, New Hampshire, and Washington have enacted laws requiring employers to provide prior notice that a non-compete clause will be required as a condition of employment.[153] Massachusetts and Oregon have enacted "garden leave" provisions, which require employers to compensate workers during the post-employment period in which the workers are bound by the non-compete clause.[154] Washington limited the permissible duration of non-compete clauses to 18 months,[155] and Massachusetts and Oregon limited it to one year.[156]

For workers not covered by these statutory restrictions, the question of whether or under what conditions a non-compete clause may be enforced against them depends on state common law.

In the 47 states where at least some non-compete clauses may be enforced, courts use a reasonableness inquiry to determine whether to enforce a non-compete clause, in addition to whatever statutory limits they are bound to apply. While the precise language

[152] *See, e.g.*, Connecticut, Conn. Gen. Stat. Ann. sec. 20-681 (effective June 26, 2019) (home health care workers); Florida, Fla. Stat. Ann. sec. 542.336 (effective June 25, 2019) (certain physicians in certain counties); Hawaii, Haw. Rev. Stat. sec. 480-4(d) (effective July 1, 2015) (technology workers); Indiana, Ind. Code sec. 25-22.5-5.5-2 (effective July 1, 2020) (physicians); Utah, Utah Code Ann. sec. 34-51-201 (effective May 18, 2018) (broadcasting employees).

[153] Oregon, Or. Rev. Stat. sec. 653.295(1)(a)(A) (effective Jan. 1, 2008); Maine, Me. Rev. Stat. Ann. tit. 26, sec. 599-A(4) (effective Sep. 19, 2019); Massachusetts, Mass. Gen. Laws Ann. ch. 149, sec. 24L(b)(i) (effective Jan. 14, 2021); New Hampshire, N.H. Rev. Stat. Ann. sec. 275:70 (effective July 28, 2014); Washington, Wash. Rev. Code Ann. sec. 49.62.020(1)(a)(i) (effective Jan. 1, 2020).

[154] Massachusetts, Mass. Gen. Laws Ann. ch. 149, sec. 24L(b)(vii) (effective Jan. 14, 2021); Oregon, Or. Rev. Stat. sec. 653.295(7) (effective Jan. 1, 2022).

[155] Washington, Wash. Rev. Code Ann. sec. 49.62.020(2) (effective Jan. 1, 2020).

[156] Massachusetts, Mass. Gen. Laws Ann. ch. 149, sec. 24L(b)(iv) (effective Jan. 14, 2021); Oregon, Or. Rev. Stat. sec. 653.295(3) (effective Jan. 1, 2022).

of the test differs from state to state, states typically use a test similar to the test in the Restatement (Second) of Contracts:

> A promise to refrain from competition that imposes a restraint that is ancillary to an otherwise valid transaction or relationship is unreasonably in restraint of trade if (a) the restraint is greater than is needed to protect the promisee's legitimate interest, or (b) the promisee's need is outweighed by the hardship to the promisor and the likely injury to the public.[157]

The first basis on which a non-compete clause can be found unreasonable is where the restraint is greater than needed to protect the employer's legitimate interest. Nearly all states recognize the protection of an employer's trade secrets as a legitimate interest.[158] Some states also recognize an interest in protecting confidential information that is not a trade secret.[159] Some states also recognize an interest in protecting the employer's investment in training, although many of these states define the interest as protecting specialized training.[160] A few states recognize an interest in preventing an worker who provides "unique" services from working for a competitor.[161] Courts do not recognize protection from ordinary competition as a legitimate business interest.[162]

If the employer can demonstrate a legitimate interest, the employer must then show the non-compete clause is tailored to that interest. This analysis typically considers

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[157] Restatement (Second) of Contracts sec. 188 (1981).

[158] *See. e.g.*, *Reed, Roberts Assocs. v. Strauman*, 40 N.Y.2d 303, 308–09 (N.Y. 1976); *see* Beck Reed Riden Chart, *supra* note 150 (listing each state's approach).

[159] *See. e.g.*, *Proudfoot Consulting Co. v. Gordon*, 576 F.3d 1223, 1233–34 (11th Cir. 2009); *see* Beck Reed Riden Chart, supra note 150 (listing each state's approach).

[160] *See, e.g.*, *IDMWORKS LLC v. Pophaly*, 192 F. Supp. 3d 1335, 1342 (S.D. Fla. 2016); *see* Beck Reed Riden Chart, supra note 150 (listing each state's approach).

[161] *See, e.g.*, *Ticor Title Ins. v. Cohen*, 173 F.3d 63, 70 (2d Cir. 1999); *see* Beck Reed Riden Chart, supra note 150 (listing each state's approach).

[162] *See, e.g.*, *Valley Med. Specialists v. Farber*, 982 P.2d 1277, 1281 (Ariz. 1999).

whether the non-compete clause prohibits a greater scope of activity than necessary to protect the employer's legitimate interests;[163] covers a geographic area more extensive than necessary to protect those interests;[164] or lasts longer than needed to protect those interests.[165]

The second basis under which a non-compete clause can be found unreasonable is where the employer's need for the non-compete clause is outweighed by the hardship to the worker and the likely injury to the public. When assessing the "hardship to the worker" prong, courts typically consider whether the non-compete clause would be unreasonable in light of the worker's personal circumstances. For example, courts have invalidated non-compete clauses where they would destroy a worker's sole means of support.[166]

When assessing the "likely injury to the public" prong, the factor most frequently considered by courts is whether enforcing the non-compete clause against the worker would deprive the community of essential goods and services.[167] Because these cases arise in the context of individual litigation, courts focus the "likely injury to the public" inquiry on the loss of the individual worker's services and not on the aggregate effects of non-compete clauses on competition in the relevant market.

State law also differs with respect to the steps courts take when they conclude that a non-compete clause is unenforceable as drafted. The majority of states have adopted the "reformation" or "equitable reform" doctrine, which allows courts to revise the text of an

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[163] *See, e.g.*, *Diversified Hum. Res. Grp., Inc. v. Levinson-Polakoff*, 752 S.W.2d 8, 11 (Tex. Ct. App. 1988).
[164] *See, e.g.*, *Orkin Exterm. Co., Inc. v. Girardeau*, 301 So. 2d 38, 39 (Fla. Ct. App. 1st 1974).
[165] *See, e.g.*, *Jorgensen v. Coppedge*, 181 P.3d 450, 454 (Idaho 2008).
[166] *See, e.g.*, *Chavers v. Copy Prods. Co. of Mobile*, 519 So. 2d 942, 945 (Ala. 1988).
[167] *See, e.g.*, *Dick v. Geist*, 693 P.2d 1133, 1136–37 (Idaho Ct. App. 1985).

unenforceable non-compete clause to make it enforceable.[168] Some states have adopted the "blue pencil" doctrine, under which courts may remove any defective provisions and may enforce the non-compete clause if the remaining provisions constitute a valid non-compete clause.[169] A few states have adopted the "red pencil" doctrine, under which courts declare an entire non-compete clause void if one or more of its provisions are found to be defective.[170]

As noted above, the general language of the test for whether a non-compete clause is reasonable is fairly consistent from state to state. However, the specifics of non-compete clause law differ from state to state. For example, states vary in how narrowly or broadly they define legitimate interests for using a non-compete clause and the extent to which courts are permitted to modify an unenforceable non-compete clause to render it enforceable. As a result, among the 47 states where non-compete clauses may be enforced, variation exists with respect to the enforceability of non-compete clauses.[171]

Because the enforceability of non-compete clauses varies from state to state, the question of which state's law applies in a legal dispute between an employer and a worker can determine the outcome of the case. Non-compete clauses often contain choice-of-law provisions designating a particular state's law for resolution of any future dispute.[172] Some non-compete clauses include forum-selection provisions specifying the

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[168] *See, e.g.*, *Butler v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787, 794 (Tex. Ct. App. 2001). *See also* Beck Reed Riden Chart, supra note 150 (listing each state's approach).

[169] *See, e.g.*, *Compass Bank v. Hartley*, 430 F. Supp. 2d 973, 980 (D. Ariz. 2006). *See also* Beck Reed Riden Chart, supra note 150 (listing each state's approach).

[170] *See, e.g.*, *Hassler v. Circle C Res.*, 505 P.3d 169, 178 (Wyo. 2022). *See also* Beck Reed Riden Chart, supra note 150 (listing each state's approach).

[171] Norman D. Bishara, *Fifty Ways to Leave Your Employer: Relative Enforcement of Non-Compete Clauses, Trends, and Implications for Employee Mobility Policy*, 13 U. Pa. J. Bus. L. 751, 778–79 (2011).

[172] Gillian Lester & Elizabeth Ryan, *Choice of Law and Employee Restrictive Covenants: An American Perspective*, 31 Comp. Lab. & Pol'y J. 389, 396–402 (2010).

court and location where any dispute will be heard.[173] The default rule under conflict-of-laws principles is that the court honors the parties' choice of law, meaning the burden is typically on the worker to argue that the law of a different forum should apply.[174]

In addition, there is significant variation in how courts apply choice of law rules in disputes over non-compete clauses.[175] As a result, it can be difficult for employers and workers to predict how disputes over choice of law will be resolved.[176] Additionally—aside from the question of which state's law should apply—employers and workers may be uncertain about whether the non-compete clause is enforceable under the state's law. Furthermore, state non-compete law may change; as described above in Part II.C.1, there have been many changes in state non-compete law in recent years. The result is that employers and workers may face considerable uncertainty as to whether a particular non-compete clause may be enforced.

Workers may also be subject to arbitration clauses, which require that legal disputes with the employer—including disputes related to non-compete clauses—be resolved through binding arbitration rather than in court. Where such clauses are valid, the Federal Arbitration Act requires that courts enforce them.[177]

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[173] *Id.* at 402–04.

[174] Lester & Ryan, *supra* note 172 at 394. *Cf.* Cal. Lab. Code § 925(a) (stating that employers shall not require an employee who primarily resides and works in California, as a condition of employment, to agree to a provision that would either (1) require the employee to adjudicate outside of California a claim arising in California or (2) deprive the employee of the substantive protection of California law with respect to a controversy arising in California.

[175] *Id.*

[176] *Id.* at 394–95 ("The state of the law is perhaps characterized more by inconsistency than anything else, so much so that commentators lament the 'disarray' and 'mish-mash' of the law, and criticize courts for their 'post-hoc rationalizing of intuitions' or their use of a 'hodgepodge of factors, often with insignificant explanation of how they decide what weight to give each.'") (internal citations omitted).

[177] *See, e.g.*, *Nitro-Lift Techs. v. Howard*, 568 U.S. 17, 21–22 (2012).

Most state courts apply different rules to non-compete clauses when they are entered into between the seller and buyer of a business, compared with non-compete clauses that arise solely out of the employment relationship.[178] The three states in which non-compete clauses are void in nearly all instances—California, North Dakota, and Oklahoma—permit enforcement when non-compete clauses are entered into between the seller and buyer of a business.[179] In most of the other states, non-compete clauses between the seller and buyer of a business are either exempted from the state's non-compete clause statute, subject to a more lenient test under the statute, or subject to more lenient standard under the state's case law.[180] Courts cite several different reasons for why they accord different treatment to non-compete clauses between the seller and buyer of a business. These reasons include the relatively equal bargaining power of both parties in the context of a business sale, relative to the employer-worker context, where there is more likely to be unequal bargaining power; the need to protect the buyer's right to the goodwill for which it has paid; and the fact that the proceeds from the sale will ensure that the seller of the business will not experience undue hardship.[181]

2. Non-Compete Clauses and Antitrust Law

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[178] Based on a review of the state cases in Malsberger (2017), *supra* note 62 and Fenwick & West LLC, *Summary of Non-Compete Clauses: A Global Perspective*, https://assets.fenwick.com/legacy/FenwickDocuments/RS_Summary-of-Covenants.pdf.

[179] Cal. Bus. & Prof. Code sec. 16601; N.D. Cent. Code sec. 9-08-06; Okla. Stat. Ann. tit. 15, sec. 218.

[180] *See, e.g.*, Colo. Rev. Stat. Ann. sec. 8-2-113(3)(c) (statutory exemption); Ga. Code Ann. sec. 13-8-57(d) (more lenient statutory test); *Jiffy Lube Int'l, Inc. v. Weiss Bros., Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993) (more lenient standard under case law).

[181] *See, e.g.*, *Woodward v. Cadillac Overall Supply Co.*, 240 N.W. 2d 710, 715 (Mich. 1976) (bargaining power); *Bybee*, 178 P.3d at 622 (Idaho 2008) (goodwill); *Centorr-Vacuum Indus., Inc. v. Lavoie*, 609 A.2d 1213, 1215 (N.H. 1992) (undue hardship).

Non-compete clauses are "contract[s] . . . in restraint of trade." Therefore, they are subject to Section 1 of the Sherman Act.[182] The Commission has identified 17 cases in cases in which private plaintiffs or the federal government have challenged a non-compete clause between an employer and a worker under either Section 1 or an analogous provision in a state antitrust statute.[183] (Three of these 17 cases concerned non-compete clauses between the seller and buyer of a business,[184] and two of these 17 cases were brought under state antitrust statutes.[185])

In two of these 17 cases, the parties challenging the non-compete clause were successful to some degree. In the early antitrust case of *United States v. American Tobacco Co.*, the Supreme Court held that several tobacco companies violated both Section 1 and Section 2 of the Sherman Act because of the collective effect of six of the companies' practices, one of which was the "constantly recurring" use of non-compete

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[182] *See, e.g.*, *Newburger, Loeb & Co., Inc.*, 563 F.2d at 1082.

[183] *U.S. v. Am. Tobacco Co.*, 221 U.S. 106 (1911); *Alders v. AFA Corp. of Fla.*, 353 F. Supp. 654 (S.D. Fla. 1973) (non-compete clause between seller and buyer of a business); *Bradford v. N.Y. Times Co.*, 501 F.2d 51 (2d Cir. 1974); *Golden v. Kentile Floors, Inc.*, 512 F.2d 838 (5th Cir. 1975); *U.S. v. Empire Gas Corp.*, 537 F.2d 296 (8th Cir. 1976); *Newburger, Loeb & Co., Inc. v. Gross*, 563 F.2d 1057 (2d Cir. 1977); *Lektro-Vend Corp. v. Vendo Co.*, 660 F.2d 255 (7th Cir. 1981) (non-compete clause between seller and buyer of a business); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897 (9th Cir. 1983); *Consultants & Designers, Inc. v. Butler Serv. Grp., Inc.*, 720 F.2d 1553 (11th Cir. 1983); *Caremark Homecare, Inc. v. New England Critical Care, Inc.*, 700 F. Supp. 1033 (D. Minn. 1988); *GTE Data Servs., Inc. v. Elec. Data Sys. Corp.*, 717 F. Supp. 1487 (M.D. Fla. 1989); *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670 (Tex. 1990) (state antitrust law case); *Borg-Warner Protective Servs. Corp. v. Guardsmark, Inc.*, 946 F. Supp. 495 (E.D. Ky. 1996); *Caudill v. Lancaster Bingo Co., Inc.*, 2005 WL 2738930 (S.D. Ohio Oct. 24, 2005); *Dallas South Mill, Inc. v. Kaolin Mushroom Farms, Inc.*, 2007 WL 9712116 (N.D. Tex. Feb. 23, 2007); *Cole v. Champion Enters., Inc.*, 496 F. Supp. 2d 613 (M.D.N.C. 2007) (non-compete clause between seller and buyer of a business) (state antitrust law case); *Signature MD, Inc. v. MDVIP, Inc.*, 2015 WL 3988959 (C.D. Cal. Apr. 21, 2015). There are also several opinions addressing whether non-compete clauses between businesses violate Section 1. Courts generally apply a less restrictive legal standard to non-compete clauses between businesses. *See, e.g.*, *Lumber Liquidators, Inc.,* 415 F. Supp. 3d at 715–16.

[184] *Alders*, 353 F. Supp. 654; *Lektro-Vend*, 660 F.2d 255; *Cole*, 496 F. Supp. 2d 613.

[185] *DeSantis*, 793 S.W.2d 670; *Cole*, 496 F. Supp. 2d 613.

clauses.[186] This is the only case the Commission has identified in which a court analyzed the collective, rather than isolated, use of non-compete clauses.

More recently, a federal district court denied a motion to dismiss a plaintiff's claim that a non-compete clause between a concierge medicine firm and physicians violated Section 1. The court held that while the reasonableness of the non-compete clause ultimately would be a factual determination, the plaintiff stated a valid claim under Section 1 where it alleged the firm "includes post-contract non-compete clauses with an unreasonably large liquidated damage provision in its employment contracts," in addition to other practices.[187]

In the other 15 Sherman Act cases, the challenge to the individual non-compete clause was unsuccessful. These claims failed for three main reasons. First, in several of these cases, the parties challenging the non-compete clause argued solely that the non-compete clause they were challenging should be *per se* unlawful under Section 1. Courts rejected these arguments, reasoning that non-compete clauses may serve legitimate business interests in some instances[188] and that courts have had insufficient experience with non-compete clauses to warrant a *per se* categorization under Section 1.[189]

The second main reason these challenges have been unsuccessful is that, in the vast majority of these 15 cases, the party challenging the non-compete clause did not allege the non-compete clause adversely affected competition, which is an essential element of a Section 1 claim in rule of reason cases.[190] In only one case did the plaintiff

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[186] *Am. Tobacco Co.*, 221 U.S. at 181–83. Section 2 of the Sherman Act, 15 U.S.C. 2, prohibits monopolization or attempted monopolization.
[187] *Signature MD, Inc.*, 2015 WL 3988959 at *7.
[188] *See, e.g.*, *Lektro-Vend*, 660 F.2d at 265.
[189] *See, e.g.*, *Aydin*, 718 F.2d at 900.
[190] *See, e.g.*, *Ohio v. Am. Express Co.*, — U.S. —, 138 S. Ct. 2274, 2284 (2018).

appear to allege facts related to anticompetitive effect beyond the effect on the person bound by the non-compete clause. In that case, the court dismissed the plaintiff's claim because the plaintiff did not sufficiently allege "the amount of competition foreclosed by defendant."[191]

Third, courts have also rejected challenges to non-compete clauses based on reasoning that a corporation is not capable of conspiring with its employees as a matter of law.[192]

Plaintiffs have also challenged non-compete clauses between employers and workers under Section 2 of the Sherman Act, which prohibits monopolization or attempted monopolization.[193] The Commission is not aware of a case in which a Section 2 claim relating to an employer's use of a non-compete clause has been successful.

3. Federal and State Enforcement Activity Related to Non-Compete Clauses

In recent years, state attorneys general in Illinois, New York, and Washington have sued companies for unlawfully using non-compete clauses. As of January 2020, state attorneys general have publicly announced settlements with seven companies regarding the use of non-compete clauses.[194] In February 2022, the Antitrust Division filed a statement of interest in a state non-compete clause case brought by private plaintiffs.[195]

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[191] *GTE Data Servs.*, 717 F. Supp. at 1492.

[192] *See, e.g.*, *Borg-Warner*, 946 F. Supp. 499; *Dallas South Mill,* 2007 WL 9712116 at *3.

[193] 15 U.S.C. 2. *See, e.g.*, *BRFHH Shreveport, LLC. v. Willis Knighton Med. Ctr.*, 176 F. Supp. 3d 606, 616–26 (W.D. La. 2016).

[194] *See* Public Comments of 19 State Attorneys General in Response to the Federal Trade Commission's January 9, 2020 Workshop on Non-Compete Clauses in the Workplace at 6 n.23 (listing the settlements).

[195] Statement of Interest of the United States, *Beck v. Pickert Med. Grp.*, No. CV21-02092 (Nev. Dist. Ct. Feb. 25, 2022).

The Antitrust Division and the Commission have also taken steps in recent years to address other types of contractual provisions that restrict competition in labor markets. The Antitrust Division has brought civil enforcement actions under Section 1 against several technology companies for entering into no-poach agreements with competitors. These enforcement actions ended with consent judgments against the companies.[196] In addition, the Antitrust Division has brought criminal charges for wage-fixing and no-poach agreements against companies and individuals.[197] The Commission too has brought civil enforcement actions against companies related to competition for employment, which ended in consent judgments against the companies.[198] In addition, the attorney general of the State of Washington has entered into settlement agreements with over 200 companies in which the companies have agreed to stop using no-poach clauses.[199]

The Commission seeks comment on all aspects of its description, in this Part II.C, of the law currently governing non-compete clauses. The Commission specifically seeks comment on the extent to which employers use choice-of-law provisions to evade the

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[196] *See* Antitrust Guidance for Human Resource Professionals, *supra* note 37 at 3–4 (citing cases).

[197] *U.S. v. Neeraj Jindal and John Rodgers*, No. 4:20-cr-358-ALM-KPJ (E.D. Tex. Dec. 9, 2020); *U.S. v. Surgical Care Affiliates, LLC and SCAI Holdings, LLC*, No. 3:21-cr-011-L (N.D. Tex. Jan. 5, 2021); *U.S. v. Ryan Hee and VDA OC,* LLC, formerly ADVANTAGE ON CALL, LLC, No. 2:21-cr-00098-RFB-BNW (D. Nev. Mar. 26, 2021); *U.S. v. DaVita, Inc. and Kent Thiry*, No. 21-cr-00229-RBJ (D. Colo. Nov. 3, 2021); *U.S. v. Patel, et al.*, 3:21-cr-220-VHB-RAR (D. Conn. Dec. 15, 2021); *U.S. v. Manahe, et al.*, 2:22-cr-00013-JAW (D. Me. Jan. 27, 2022). The defendants in the *Jindal* case were found not guilty of the wage-fixing charge, and the defendants in the *DaVita* cases were found not guilty of all charges. *Jindal*, Jury Verdict (E.D. Tex. Apr. 14, 2022); *DaVita*, Verdict (D. Colo. Apr. 15, 2022). However, both courts found that the conduct alleged in the indictment properly fell within the confines of the *per se* rule. *Jindal*, Memorandum Opinion and Order, 2021 WL 5578687 (E.D. Tex. Nov. 29, 2021) at *4–*8; *DaVita*, Order Denying Defendants' Motion to Dismiss, 2022 WL 266759 (D. Colo. Jan. 28, 2022) at *4–*8. The court in *Manahe* likewise recently denied a motion to dismiss, holding the indictment charged a recognized form of per se illegal conduct. 2022 WL 3161781, at **7, 9 (D. Me. Aug. 8, 2022).

[198] *See* Antitrust Guidance for Human Resource Professionals, *supra* note 37 at 4 (citing cases).

[199] Office of the Att'y Gen. of the State of Wash., Press Release, *AG Report: Ferguson's Initiative Ends No-Poach Practices Nationally at 237 Corporate Franchise Chains* (June 16, 2020).

laws of states where non-compete clauses are relatively less enforceable. The Commission also seeks comment on the extent to which a uniform federal standard for non-compete clauses would promote certainty for employers and workers.

D. The Commission's Work on Non-Compete Clauses

This rulemaking represents the culmination of several years of activity by the Commission related to non-compete clauses and their effects on competition. This activity has included extensive public outreach and fact-gathering related to non-compete clauses, other restrictive employment covenants that may harm competition, and competition in labor markets generally. The Commission has also analyzed non-compete clauses in connection with its enforcement, research, and merger review work.

The Commission first began focusing on non-compete clauses in the mid-2010s, as a growing body of empirical research raised concerns about the anticompetitive effects of non-compete clauses. In 2018 and 2019, the Commission held several "Hearings on Competition and Consumer Protection in the 21st Century."[200] The Commission invited public comment on a wide range of topics, including "the use of non-competition agreements and the conditions under which their use may be inconsistent with the antitrust laws."[201] Participants addressed non-compete clauses at two of the hearings.[202]

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[200] Fed. Trade Comm'n, *Hearings on Competition and Consumer Protection in the 21st Century*, https://www.ftc.gov/enforcement-policy/hearings-competition-consumer-protection.

[201] Fed. Trade Comm'n, Notice, *Hearings on Competition and Consumer Protection in the 21st Centu*ry, 83 FR 38307, 38309 (Aug. 6, 2018).

[202] Fed. Trade Comm'n, Transcript, *Competition and Consumer Protection in the 21st Century* (Oct. 16, 2018), https://www.ftc.gov/system/files/documents/public_events/1413712/ftc_hearings_session_3_transcript_day_2_10-16-18_1.pdf; Fed. Trade Comm'n, Transcript, *Competition and Consumer Protection in the 21st Century* (June 12, 2019), https://www.ftc.gov/system/files/documents/public_events/1519667/ftc_hearings_session_14_transcript_6-12-19_0.pdf.

Also in 2019, the Open Markets Institute, 19 labor and public interest organizations, and 46 individual advocates and scholars petitioned the Commission to initiate a rulemaking to prohibit non-compete clauses.[203]

As evidence mounted regarding the anticompetitive effects of non-compete clauses, the Commission's focus on this issue increased. On January 9, 2020, the Commission held a public workshop on non-compete clauses. At the workshop, speakers and panelists addressed topics including statutory and judicial treatment of non-compete clauses; the Commission's authority to address non-compete clauses; the economic literature regarding the effects of non-compete clauses; and whether the Commission should initiate a rulemaking on non-compete clauses.[204] In connection with the workshop, the Commission sought public comment on a wide range of topics related to a potential rulemaking on non-compete clauses. The Commission received 328 comments addressing these topics from researchers, advocates for workers, employers, trade associations, attorneys, members of Congress, state and local officials, unions, other organizations, and individual members of the public.[205]

In addition, on August 5, 2021, the Commission issued a solicitation for public comment on contract terms that may harm competition, including "non-compete clauses that prevent workers from seeking employment with other firms." The Commission

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[203] Open Markets Inst. et al., *Petition for Rulemaking to Prohibit Worker Non-Compete Clauses* (March 20, 2019).

[204] Fed. Trade Comm'n, *Non-Competes in the Workplace: Examining Antitrust and Consumer Protection Issues*, https://www.ftc.gov/news-events/events/2020/01/non-compete clauses-workplace-examining-antitrust-consumer-protection-issues.

[205] Fed. Trade Comm'n, Docket FTC-2019-0093, *Workshop on Non-Compete Clauses Used in Employment Contracts*, https://www.regulations.gov/document/FTC-2019-0093-0001/comment.

received 280 comments on this solicitation from a wide range of stakeholders.[206] On December 6-7, 2021, the Commission and the Antitrust Division held a workshop entitled "Making Competition Work: Promoting Competition in Labor Markets." The Commission sought comment from the public in connection with this event and received 27 comments.[207]

As it has developed this proposed rule, the Commission has closely considered the views expressed at these forums and the public comments it has received through these engagement efforts. The comments have informed the Commission's understanding of the evidence regarding the effects of non-compete clauses; the law currently governing non-compete clauses; and the options for how the Commission may seek to restrict the unfair use of non-compete clauses through rulemaking, among other topics.

The Commission has also focused on non-compete clauses in connection with its enforcement, merger review, and research work. With respect to enforcement, in 2021, the Commission initiated investigations into the use of non-compete clauses by manufacturers of glass containers used for food and beverage packaging. On December 28, 2022, the Commission accepted, subject to final approval, consent agreements with two manufacturers in the industry.[208] The glass container industry is highly concentrated and is characterized by substantial barriers to entry and expansion. Among these barriers,

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[206] Fed. Trade Comm'n, *Solicitation for Public Comments on Contract Terms that May Harm Competition* (Aug 5, 2021), https://www.regulations.gov/document/FTC-2021-0036-0022.

[207] Fed. Trade Comm'n, Docket FTC-2021-0057, *Making Competition Work: Promoting Competition in Labor Markets*, https://www.regulations.gov/docket/FTC-2021-0057/comments.

[208] Fed. Trade Comm'n, Decision and Order, *In re O-I Glass, Inc. et al*, Matter No. 211 0182 (December 28, 2022); Fed. Trade Comm'n, Decision and Order, *In re Ardaugh Group S.A. et al*, Matter No. 211 0182 (December 28, 2022).

it is difficult to identify and employ personnel with skills and experience in glass container manufacturing.[209]

The complaints allege the manufacturers required employees across a variety of positions—including employees who work with the glass plants' furnaces and forming equipment and in other glass production, engineering, and quality assurance roles—to enter into non-compete clauses. The complaints allege this conduct has a tendency or likelihood to impede rivals' access to the restricted employees' labor, to limit workers' mobility, and thus to harm workers, consumers, competition, and the competitive process. As such, the complaints allege each company has engaged in an unfair method of competition in violation of Section 5 of the FTC Act.[210] The proposed consent orders would prohibit each manufacturer from "entering or attempting to enter, maintaining or attempting to maintain, or enforcing or attempting to enforce a Non-Compete Restriction with an Employee, or communicating to an Employee or a prospective or current employer of that Employee that the Employee is subject to a Non-Compete Restriction."[211]

In 2021, the Commission also initiated investigations into the use of non-compete clauses in the security guard services industry. On December 28, 2022, the Commission accepted, subject to final approval, a consent agreement with Prudential Security, Inc., Prudential Command Inc., and the firms' co-owners (collectively "Prudential Respondents"). Prudential Security, Inc. and Prudential Command Inc. provided security guard services to clients in several states.

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[209] Fed. Trade Comm'n, Analysis of Agreements Containing Consent Order to Aid Public Comment, *In re O-I Glass Inc. et al.*, *In re Ardaugh Group S.A. et al*, Matter No. 211 0182 (December 28, 2022) at 2.
[210] *Id.* at 1-2.
[211] *Id.* at 7.

The Commission's complaint alleges the Prudential Respondents' use of non-compete clauses is an unfair method of competition under Section 5 because it is restrictive, coercive, and exploitative and negatively affects competitive conditions.[212] The complaint further alleges the Prudential Respondents' imposition of non-compete clauses took advantage of the unequal bargaining power between Prudential Respondents and their employees, particularly low-wage security guard employees, and thus reduced workers' job mobility, limited competition for workers' services, and ultimately deprived workers of higher wages and more favorable working conditions.[213] Under the terms of the proposed order, Prudential Respondents—including any companies the co-owners may control in the future—must cease and desist from entering, maintaining, enforcing, or attempting to enforce any non-compete clause.[214]

These consent orders have been placed on the public record for 30 days in order to receive comments from interested persons. After 30 days, the Commission will again review the consent agreements and the comments received and will decide whether it should make the proposed orders final or take other appropriate action.[215]

In addition, as part of a 2020 settlement with the Commission, three national rent-to-own companies agreed to refrain from enforcing non-compete clauses that were entered into in connection with reciprocal purchase agreements.[216]

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[212] Fed. Trade Comm'n, Analysis of Agreement Containing Consent Order to Aid Public Comment, *In re Prudential Sec., Inc. et al.*, Matter No. 211 0026 at 1, 5–7 (December 28, 2022).
[213] *Id.* at 1.
[214] *Id.*
[215] *Id.* at 1–2; Glass Container Analysis to Aid Public Comment, *supra* note 209 at 1.
[216] Fed. Trade Comm'n, Press Release, *Rent-to-Own Operators Settle Charges that They Restrained Competition through Reciprocal Purchase Agreements* (Feb. 21, 2020), https://www.ftc.gov/news-events/news/press-releases/2020/02/rent-own-operators-settle-charges-they-restrained-competition-through-reciprocal-purchase-agreements.

With respect to merger review, on August 11, 2015, the Commission approved a final order settling charges that Zimmer Holdings, Inc.'s acquisition of Biomet, Inc. would have eliminated competition between the companies in the markets for certain orthopedic medical products. Among other things, the order requires Zimmer to "remove any impediments or incentives" that may deter workers from accepting employment with the divested businesses, including non-compete clauses.[217]

On November 10, 2021, the Commission approved a final order settling charges that 7-Eleven's acquisition of Marathon Petroleum Corporation's Speedway subsidiary violated federal antitrust laws. Among other things, the order prohibits 7-Eleven from enforcing any non-compete clauses against any franchisees or employees working at or doing business with the divested assets.[218]

On January 10, 2022, the Commission approved a final order settling charges that dialysis service provider DaVita, Inc.'s acquisition of University of Utah Health's dialysis clinics would reduce competition in vital outpatient dialysis services in the Provo, Utah market. As part of the order, DaVita was required to remove certain non-compete clauses and prohibited from enforcing or entering into non-compete clauses with certain parties.[219] And on August 9, 2022, the Commission issued a final consent order in

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[217] Fed. Trade Comm'n, *In the Matter of Zimmer Holdings, Inc. et al.*, No. C-4534, Decision and Order (Aug. 11, 2015), https://www.ftc.gov/system/files/documents/cases/150820zimmerdo.pdf.

[218] Fed. Trade Comm'n, Press Release, *FTC Approves Final Order Requiring Divestitures of Hundreds of Retail Gas and Diesel Fuel Stations Owned by 7-Eleven, Inc.* (Nov. 10, 2021), https://www.ftc.gov/news-events/news/press-releases/2021/11/ftc-approves-final-order-requiring-divestitures-hundreds-retail-gas-diesel-fuel-stations-owned-7.

[219] Fed. Trade Comm'n, *In the Matter of Davita Inc. and Total Renal Care, Inc.*, No. C-4752, Decision and Order (Jan. 10, 2022) at 12–14, https://www.ftc.gov/system/files/documents/cases/211_0056_c4752_davita_utah_health_order.pdf.

which ARKO Corp. and its subsidiary GPM agreed to roll back a sweeping non-compete clause they imposed on a company to which they sold 60 gas stations.[220]

With respect to research, in September 2021, the Commission issued a study analyzing acquisitions by five large technology companies that were not reported to the Commission and the U.S. Department of Justice under the Hart-Scott-Rodino Act.[221] The study found 76.7% of transactions included non-compete clauses for founders and key employees of the acquired entities. The study also found that higher-value transactions were more likely to use non-compete clauses.[222] The study does not explain why the companies used non-compete clauses or analyze the effects of these particular non-compete clauses on competition.

The Commission seeks comment on its description, in this Part II.D, of the Commission's work on non-compete clauses prior to this NPRM.

III. Legal Authority

Section 5 of the FTC Act declares "unfair methods of competition" to be unlawful.[223] Section 5 further directs the Commission "to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce."[224] Section 6(g) of the FTC Act authorizes the Commission to "make rules and regulations for the purpose of carrying out the provisions of" the FTC Act, including

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[220] Fed. Trade Comm'n, Press Release, *FTC Approves Final Order Restoring Competitive Markets for Gasoline and Diesel in Michigan and Ohio* (Aug. 9, 2022), https://www.ftc.gov/news-events/news/press-releases/2022/08/ftc-approves-final-order-restoring-competitive-markets-gasoline-diesel-michigan-ohio.

[221] Fed. Trade Comm'n, *Non-HSR Reported Acquisitions by Select Technology Platforms, 2010–2019: An FTC Study* (September 2021) at 1.

[222] *Id.* at 21–22. The table states that the figure is 77.3%. The reason for this discrepancy is not clear.

[223] 15 U.S.C. 45(a)(1).

[224] 15 U.S.C. 45(a)(2).

the Act's prohibition of unfair methods of competition.[225] Taken together, Sections 5 and 6(g) provide the Commission with the authority to issue regulations declaring practices to be unfair methods of competition.[226]

Courts have made clear Section 5's prohibition of unfair methods of competition encompasses all practices that violate either the Sherman or Clayton Acts.[227] However, courts have long held the scope of Section 5 is not confined to the conduct that is prohibited under the Sherman Act, Clayton Act, or common law.[228] Section 5 reaches incipient violations of the antitrust laws—conduct that, if left unrestrained, would grow into an antitrust violation in the foreseeable future.[229] Additionally, Section 5 reaches conduct that, while not prohibited by the Sherman or Clayton Acts, violates the spirit or policies underlying those statutes.[230]

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[225] 15 U.S.C. 46(g).

[226] *Nat'l Petroleum Refiners Ass'n v. Fed. Trade Comm'n*, 482 F.2d 672, 697–98 (D.C. Cir. 1973).

[227] *See, e.g.*, *Fed. Trade Comm'n v. Cement Inst.*, 333 U.S. 683, 693 (1948) (holding practices that violate the Sherman Act are unfair methods of competition); *Fashion Originators' Guild of Am. v. Fed. Trade Comm'n*, 312 U.S. 457, 464 (1941) (holding practices that violate the Clayton Act are unfair methods of competition).

[228] *See, e.g.*, *Fed. Trade Comm'n v. Motion Picture Advert. Serv. Co.*, 344 U.S. 392, 394–95 (1953) ("The 'Unfair methods of competition', which are condemned by [Section] 5(a) of the [FTC] Act, are not confined to those that were illegal at common law or that were condemned by the Sherman Act. Congress advisedly left the concept flexible to be defined with particularity by the myriad of cases from the field of business.") (internal citations omitted).

[229] *See, e.g.*, *Cement Inst.*, 333 U.S. at 708 ("A major purpose of [the FTC] Act was to enable the Commission to restrain practices as 'unfair' which, although not yet having grown into Sherman Act dimensions would most likely do so if left unrestrained."); *Fashion Originators' Guild*, 312 U.S. at 466; *Triangle Conduit & Cable Co. v. Fed. Trade Comm'n*, 168 F.2d 175, 176 (7th Cir. 1948).

[230] *See, e.g.*, *Fashion Originators' Guild*, 312 U.S. at 463 (stating that "[i]f the purpose and practice of the combination of garment manufacturers and their affiliates runs counter to the public policy declared in the Sherman and Clayton Acts, the Federal Trade Commission has the power to suppress it as an unfair method of competition"); *E.I. du Pont de Nemours & Co. v. Fed. Trade Comm'n (Ethyl)*, 729 F.2d 128, 136–37 (2d Cir. 1984) (finding that the Commission may bar "conduct which, although not a violation of the letter of the antitrust laws, is close to a violation or is contrary to their spirit"). On November 10, 2022, the Commission issued a policy statement describing the key principles of general applicability concerning whether conduct is an unfair method of competition under Section 5. Fed. Trade Comm'n, *Policy Statement Regarding the Scope of Unfair Methods of Competition Under Section 5 of the Federal Trade Commission Act* (Nov. 10, 2022).

IV. The Commission's Preliminary Determination that Non-Compete Clauses Are an Unfair Method of Competition

The Commission preliminarily determines it is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or represent to a worker that the worker is subject to a non-compete clause where the employer has no good faith basis to believe the worker is subject to an enforceable non-compete clause.[231] This preliminary determination is the basis for this proposed rule, which would provide that each of these practices is an unfair method of competition under Section 5.[232] This Part IV sets forth a series of preliminary findings that provide the basis for this preliminary determination. The Commission's preliminary determination and each of these preliminary findings are subject to further consideration in light of the comments received and the Commission's additional analysis. The Commission seeks comment on all aspects of this Part IV.[233]

A. Non-Compete Clauses Are an Unfair Method of Competition Under Section 5

1. Non-Compete Clauses Are Unfair

Courts have held conduct is an "unfair method of competition" under Section 5 where the conduct is facially unfair. In *Atlantic Refining Co. v. FTC* and *FTC v. Texaco, Inc.*, the Court held the Commission established an unfair method of competition where an oil company used its economic power over its gas stations to coerce them into buying certain tires, batteries, or accessories only from firms that paid the oil company a

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[231] For ease of reference, this Part IV employs the term "use of non-compete clauses" as a shorthand to refer to this conduct.

[232] *See* proposed § 910.2(a).

[233] The Commission intends for this Part IV to satisfy the requirements in Section 22 of the FTC Act that, in an NPRM, the Commission issue a preliminary regulatory analysis that contains "a concise statement of the need for, and the objectives of, the proposed rule." 15 U.S.C. 57b-3.

commission.[234] In *Texaco*, the Court held the conduct was an unfair method of competition even though Texaco's conduct was not overtly coercive, reasoning that Texaco's conduct was "inherently coercive" because its "dominant economic power was used in a manner which tended to foreclose competition."[235] In *FTC v. R.F. Keppel & Bro.*, the Court held the Commission established an unfair method of competition where a manufacturer exploited the inability of children to protect themselves in the marketplace by marketing inferior goods to them through use of a gambling scheme.[236] In *E.I. du Pont de Nemours & Co. v. FTC (Ethyl)*, the U.S. Court of Appeals for the Second Circuit reaffirmed that coercive conduct is quintessentially covered by Section 5's prohibition of unfair methods of competition.[237]

The Court has also held that, for coercive conduct to constitute unfair method of competition, it must burden commerce. In *Atlantic Refining*, the Court determined "a full-scale economic analysis of competitive effect" was not required; due to the nature of the conduct at issue, the Commission merely needed to show the conduct burdened "a not insubstantial portion of commerce."[238]

In the cases described above, courts condemned conduct under Section 5 based on the facial unfairness of the conduct. In other cases, however, courts have condemned

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[234] *Atl. Refin. Co.*, 381 U.S. at 369–70; *Texaco, Inc.*, 393 U.S. at 228–29.

[235] 393 U.S. 223 at 228–29 (1968). *See also Shell Oil Co. v. Fed. Trade Comm'n*, 360 F.2d 470, 487 (5th Cir. 1966) ("A man operating a gas station is bound to be overawed by the great corporation that is his supplier, his banker, and his landlord.").

[236] 291 U.S. 304, 313 (1934).

[237] 729 F.2d 128, 140 (2d Cir. 1984) ("In short, in the absence of proof of a violation of the antitrust laws or evidence of collusive, coercive, predatory, or exclusionary conduct, business practices are not "unfair" in violation of § 5 unless those practices either have an anticompetitive purpose or cannot be supported by an independent legitimate reason.").

[238] 381 U.S. at 370–71. *See also Texaco, Inc.*, 393 U.S. at 230 (finding that the practice unfairly burdened competition for a not insignificant volume of commerce); *R.F. Keppel & Bro.*, 291 U.S. at 309 ("A practice so widespread and so far reaching in its consequences is of public concern if in other respects within the purview of the statute.").

restrictive or exclusionary conduct under Section 5 based not on the facial unfairness of the conduct, but on the impact of the conduct on competition. For example, in *FTC v. Motion Picture Advertising Service Co.*, the Court held an exclusive dealing arrangement violated Section 5 where there was "substantial evidence" the contracts "unreasonably restrain competition."[239] Similarly, in *L.G. Balfour Co. v. FTC*, the U.S. Court of Appeals for the Seventh Circuit held a firm's exclusive dealing contracts violated Section 5 where such contracts were "anti-competitive."[240] As the U.S. Court of Appeals for the Sixth Circuit stated in *Hastings Manufacturing Co. v. FTC*, the Section 5 jurisprudence has established that "acts [that are] not in themselves illegal or criminal, or even immoral, may, when repeated and continued and their impact upon commerce is fully revealed, constitute an unfair method of competition within the scope of the Commission's authority to regulate and forbid."[241]

For the reasons described below, the Commission preliminarily finds the use by employers of non-compete clauses is an "unfair" method of competition under Section 5. The Commission's preliminary findings differ based on whether the worker is a senior executive. For workers who are not senior executives, the Commission preliminarily finds the use by employers of non-compete clauses is "unfair" under Section 5 in three independent ways. First, non-compete clauses are restrictive conduct that negatively affects competitive conditions. Second, non-compete clauses are exploitative and coercive at the time of contracting while burdening a not insignificant volume of commerce. Third, non-compete clauses are exploitative and coercive at the time of the

[239] 344 U.S. 392, 395–96 (1953).
[240] 442 F.2d 1, 14 (7th Cir. 1971).
[241] 153 F.2d 253, 257 (6th Cir. 1946).

worker's potential departure from the employer while burdening a not insignificant volume of commerce.

For workers who are senior executives, the Commission preliminarily finds the use by employers of non-compete clauses is "unfair" under Section 5 because such non-compete clauses are restrictive conduct that negatively affects competitive conditions. As described below in Part IV.A.1.a.ii, the Commission preliminarily concludes non-compete clauses for senior executives may harm competition in product markets in unique ways. The second and third preliminary findings described above—that non-compete clauses are exploitative and coercive at the time of contracting and at the time of a worker's potential departure—do not apply to workers who are senior executives.[242]

The Commission seeks comment on whether this different unfairness analysis should apply to other highly paid or highly skilled workers who are not senior executives. Furthermore, in Part VI.C below, the Commission seeks comment on how this category of workers—whether "senior executives" or a broader category of highly paid or highly skilled workers—should be defined, and whether different regulatory standards should apply to this category of workers.

The Commission seeks comment on its preliminary finding that non-compete clauses are an "unfair" method of competition under Section 5.

a. Non-Compete Clauses are Restrictive Conduct that Negatively Affects Competitive Conditions

[242] As described below in Part VII.B.1.a.iv, the Commission estimates that, when non-compete clauses are more enforceable, CEO earnings are reduced. This may result from the negative effects on competitive conditions that non-compete clauses have on labor markets (discussed in greater detail below in Part IV.A.1.a.i) rather than from exploitation or coercion.

First, the Commission preliminarily finds non-compete clauses are an "unfair" method of competition under Section 5 because they are restrictive conduct that negatively affects competitive conditions.

As noted above, courts have condemned restrictive or exclusionary conduct under Section 5 based not on the facial unfairness of the conduct, but on the impact of the conduct on competition.[243] Non-compete clauses are restrictive conduct. By their express terms, non-compete clauses restrict a worker's ability to work for a competitor of the employer—for example, by accepting a job with a competitor or starting a business that would compete against the employer. Non-compete clauses also restrict rivals from competing against the employer to attract their workers. Because non-compete clauses facially restrain competition in the labor market, courts have long held they are restraints of trade and proper subjects for scrutiny under the antitrust laws.[244] Furthermore, as described in detail in this NPRM, there is considerable empirical evidence showing non-compete clauses negatively affect competition in labor markets and product and service markets.[245] This evidence is summarized below.

i. Non-Compete Clauses Negatively Affect Competitive Conditions in Labor Markets

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[243] *See supra* Part IV.A.1.

[244] *See, e.g.*, *Am. Tobacco Co.*, 221 U.S. at 181–83 (holding several tobacco companies violated Sections 1 and 2 of the Sherman Act due to the collective effect of six of the companies' practices, one of which was the "constantly recurring" use of non-compete clauses); *Newburger, Loeb & Co., Inc.*, 563 F.2d at 1082 ("Although such issues have not often been raised in the federal courts, employee agreements not to compete are proper subjects for scrutiny under section 1 of the Sherman Act. When a company interferes with free competition for one of its former employee's services, the market's ability to achieve the most economically efficient allocation of labor is impaired. Moreover, employee-noncompetition clauses can tie up industry expertise and experience and thereby forestall new entry.")

[245] *See supra* Part II.B.

As described in greater detail above in Part II.B.1, non-compete clauses negatively affect competitive conditions in labor markets by obstructing the sorting of workers and employers into the strongest possible matches. Labor markets function by matching workers and employers. In a well-functioning labor market, a worker who is seeking a better job—more pay, better working conditions, more enjoyable work, or whatever the worker may be seeking—can enter the labor market by looking for work. Employers who have positions available compete for the worker's services. The worker's current employer may also compete with these prospective employers by seeking to retain the worker—for example, by offering to raise the worker's pay or promote the worker. Ultimately, the worker chooses the job that best meets their objectives. In general, the more jobs available—*i.e.*, the more options the worker has—the greater the possibility the worker will find a strong match.

Just as employers compete for workers in a well-functioning labor market, workers compete for jobs. In general, the more workers who are available—*i.e.*, the more options the employer has—the stronger the match the employer will find. Through these processes—employers competing for workers, workers competing for jobs, and employers and workers matching with one another—competition in the labor market leads to higher earnings for workers, greater productivity for employers, and better economic conditions.

In a perfectly competitive labor market, if a job that a worker would prefer more—for example, because it has higher pay or is in a better location—were to become available, the worker could switch to it quickly and easily. However, this perfectly competitive labor market exists only in theory. In practice, labor markets substantially deviate from perfect competition. Non-compete clauses, in particular, impair competition in labor markets by restricting a worker's ability to change jobs. If a worker is bound by a non-compete clause, and the worker wants a better job, the non-compete clause will prevent the worker from accepting a new job within the scope of the non-compete clause. These will often be the most natural alternative employment options for a worker: jobs in the same geographic area and in the worker's field of expertise. The result is less competition among employers for the worker's services. Since the worker is prevented from taking these jobs, the worker may decide not to enter the labor market at all, or the worker may enter the labor market but take a job outside of their field of expertise in which they are less productive.

Non-compete clauses affect competition in labor markets through their use in the aggregate. The effect of an individual worker's non-compete clause on competition in a particular labor market may be marginal or may be impossible to discern statistically. However, the use of a large number of non-compete clauses across a labor market demonstrably affects the opportunities of all workers in that market. By making it more difficult for many workers in a labor market to switch to new jobs, non-compete clauses inhibit optimal matches from being made between employers and workers across the labor force. As a result, where non-compete clauses are prevalent in a market, workers are more likely to remain in jobs that are less optimal with respect to the worker's ability to maximize their productive capacity. This materially reduces wages for workers—not only for workers who are subject to non-compete clauses, but other workers in a labor market as well, since jobs that would otherwise be better matches for an unconstrained worker are filled by workers subject to non-compete clauses.

The Section 5 analysis as to whether conduct negatively affects competitive conditions does not require a showing that the conduct caused actual harm.[246] However, whether conduct causes actual harm can be relevant to whether it is an unfair method of competition.[247] There is significant empirical evidence that non-compete clauses cause actual harm to competition in labor markets, and that these harms are substantial.

As described above in Part II.B.1.a, the Commission estimates at least one in five American workers—or approximately 30 million workers—is bound by a non-compete clause. The proliferation of non-compete clauses is restraining competition in labor markets to such a degree that it is materially impacting workers' earnings—both across the labor force in general, and also specifically for workers who are not subject to non-compete clauses. The available evidence indicates increased enforceability of non-compete clauses substantially reduces workers' earnings, on average, across the labor market generally or for specific types of workers.[248] The Commission estimates the proposed rule, which would prohibit employers from using non-compete clauses, would increase workers' total earnings by $250 to $296 billion per year.[249]

In addition to the evidence showing non-compete clauses reduce earnings for workers across the labor force, there is also evidence non-compete clauses reduce

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[246] *See Fed. Trade Comm'n v. Sperry & Hutchinson Co.*, 405 U.S. 233, 244 (1972) (explaining that "unfair competitive practices [are] not limited to those likely to have anticompetitive consequences after the manner of the antitrust laws"); *In re Coca-Cola Co.*, 117 F.T.C. 795, 915 (FTC 1994) (rejecting argument that Section 5 violation requires showing "anticompetitive effects").

[247] *See Ethyl*, 729 F.2d at 138 (evidence of actual harm can be "a relevant factor in determining whether the challenged conduct is unfair").

[248] *See supra* Part II.B.1. While there is evidence that increased enforceability of non-compete clauses increases the rate of earnings growth for physicians, Lavetti, Simon, & White, *supra* note 53 at 1051, the Commission estimates that the proposed rule may increase physicians' earnings, although the study does not allow for a precise calculation. *See infra* Part VII.B.1.a.ii.

[249] *See infra* Part VII.B.1 (describing the Commission's assessment of the benefits of the proposed rule).

earnings specifically for workers who are *not* subject to non-compete clauses.[250] One study finds when the use of non-compete clauses by employers increases, that drives down wages for workers who do not have non-compete clauses but who work in the same state and industry. This study also finds this effect is stronger where non-compete clauses are more enforceable. This study shows the reduction in earnings (and also reduced labor mobility) is due to a reduction in the rate of the arrival of job offers.[251] Another study finds similarly that changes in non-compete clause enforceability in one state have negative impacts on workers' earnings in bordering states and that the effects are nearly as large as the effects in the state in which enforceability changed (though the effect tapers off as the distance to the bordering state increases).[252] The authors conclude that, since the workers across the border are not directly affected by the law change—because contracts that they have signed do not become more or less enforceable—this effect must be due to changes in the local labor market.[253]

The Commission preliminarily concludes non-compete clauses negatively affect competitive conditions in labor markets regardless of the worker's income or job function. Whether a worker is a senior executive or a security guard, non-compete clauses block the worker from switching to a job in which they would be better paid and more productive—restricting that worker's opportunities as well as the opportunities of other workers in the relevant labor market. The available data do not allow the Commission to estimate earnings effects for every occupation. However, the evidentiary

[250] *See supra* Part II.B.1.c.
[251] Starr, Frake, & Agarwal, *supra* note 76 at 4.
[252] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 51.
[253] *Id.* at 30.

record indicates non-compete clauses depress wages for a wide range of subgroups of workers across the spectrum of income and job function. The Commission therefore estimates the proposed rule would increase earnings for workers in all of the subgroups of the labor force for which sufficient data is available.[254]

The Commission seeks comment on its preliminary finding that non-compete clauses negatively affect competitive conditions in labor markets.

ii. Non-Compete Clauses Negatively Affect Competitive Conditions in Markets for Products and Services

The adverse effects of non-compete clauses on product and service markets largely result from reduced labor mobility. Several studies show the use of non-compete clauses by employers reduces labor mobility. All of these studies have found decreased rates of labor mobility, as measured by job separations, hiring rates, job-to-job mobility, implicit mobility defined by job tenure, and within- and between-industry mobility.[255] The Commission does not view reduced labor mobility from non-compete clauses—in and of itself—as evidence that non-compete clauses negatively affect competition in product and service markets. Instead, reduced labor mobility is best understood as the primary driver of the effects in product and service markets the Commission is concerned about.

Reduced labor mobility from non-compete clauses negatively affects competitive conditions in product and service markets in several respects. First, there is evidence non-compete clauses increase consumer prices and concentration in the health care sector.

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[254] *See infra* Part VII.B.1.a.
[255] *See supra* Part II.B.2.

There is also evidence non-compete clauses increase industrial concentration more broadly. Non-compete clauses may have these effects by inhibiting entrepreneurial ventures (which could otherwise enhance competition in goods and service markets) or by foreclosing competitors' access to talented workers.[256]

Second, non-compete clauses foreclose the ability of competitors to access talent by effectively forcing future employers to buy out workers from their non-compete clauses if they want to hire them. Firms must either make inefficiently high payments to buy workers out of non-compete clauses with a former employer, which leads to deadweight economic loss, or forego the payment—and, consequently, the access to the talent the firm seeks. Whatever choice a firm makes, its economic outcomes in the market are harmed, relative to a scenario in which no workers are bound by non-compete clauses. There is evidence of this mechanism in the market for CEOs.[257]

Third, the weight of the evidence indicates non-compete clauses have a negative impact on new business formation. New business formation increases competition first by bringing new ideas to market, and second, by forcing incumbent firms to respond to new firms' ideas instead of stagnating. Non-compete clauses restrain new business formation by preventing workers subject to non-compete clauses from starting their own businesses. In addition, firms are more willing to enter markets in which they know there are potential sources of skilled and experienced labor, unhampered by non-compete clauses.[258]

[256] *See supra* Part II.B.2.a.
[257] *See supra* Part II.B.2.b.
[258] *See supra* Part II.B.2.c.

Fourth, the weight of the evidence indicates non-compete clauses decrease innovation. Innovation may directly improve economic outcomes by increasing product quality or decreasing prices, or may promote competition because successful new products and services force competing firms to improve their own products and services. Non-compete clauses affect innovation by reducing the movement of workers between firms, which decreases knowledge flow between firms. Non-compete clauses also prevent workers from starting businesses in which they can pursue innovative new ideas.[259]

As noted above in Part II.B.2.e, there is also evidence non-compete clauses increase employee training and other forms of investment. The Commission considers this evidence below in Part IV.B as part of its analysis of the justifications for non-compete clauses.

The Commission believes non-compete clauses for senior executives may harm competition in product markets in unique ways, to the extent that senior executives may be likely to start competing businesses, be hired by potential entrants or competitors, or lead the development of innovative products and services. Non-compete clauses for senior executives may also block potential entrants, or raise their costs, to a high degree, because such workers are likely to be in high demand by potential entrants. As a result, prohibiting non-compete clauses for senior executives may have relatively greater benefits for consumers than prohibiting non-compete clauses for other workers. The Commission seeks comment on this analysis as well as whether this reasoning may apply to highly paid and highly skilled workers who are not senior executives.

[259] *See supra* Part II.B.2.d.

The Commission seeks comment on its preliminary finding that non-compete clauses negatively affect competitive conditions in markets for products and services.

b. Non-Compete Clauses Are Exploitative and Coercive at the Time of Contracting

The Commission preliminarily finds non-compete clauses for workers other than senior executives are exploitative and coercive because they take advantage of unequal bargaining power between employers and workers at the time the employer and worker enter into the non-compete clause.

As noted above, courts have held conduct that is exploitative and coercive can violate Section 5 where it burdens a not insignificant volume of commerce.[260] Courts have long recognized bargaining power between employers and workers is unequal and, as a result, workers are vulnerable to exploitation and coercion through the use of non-compete clauses at the time of contracting. Courts have expressed this concern since at least the early eighteenth century. In the foundational English case *Mitchel v. Reynolds*, the court cited "the great abuses these voluntary restraints are liable to . . . from masters, who are apt to give their apprentices much vexation" by using "many indirect practices to procure such bonds from them, lest they should prejudice them in their custom, when they come to set up for themselves."[261] As another court stated, more recently:

> The average, individual employee has little but his labor to sell or to use to make a living. He is often in urgent need of selling it and in no position to object to boiler plate restrictive covenants placed before him to sign. To him, the right to

[260] *See supra* Part IV.A.1.
[261] 1 P. Wms. at 190.

> work and support his family is the most important right he possesses. His individual bargaining power is seldom equal to that of his employer. . . . Under pressure of need and with little opportunity for choice, he is more likely than the seller to make a rash, improvident promise that, for the sake of present gain, may tend to impair his power to earn a living, impoverish him, render him a public charge or deprive the community of his skill and training.[262]

Indeed, courts have cited the imbalance of bargaining power between workers and employers as a central reason for imposing stricter scrutiny on non-compete clauses between employers and workers than on non-compete clauses between businesses or between the seller and buyer of a business.[263]

The imbalance of bargaining power between employers and workers results from several factors. Many of these factors relate to the nature of the employer-worker relationship in the United States generally. Most workers depend on income from their jobs to get by—to pay their rent or mortgage, pay their bills, and keep food on the table. For these workers, particularly the many workers who live paycheck to paycheck, loss of a job or a job opportunity can severely damage their finances.[264] For these reasons, the

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[262] *Arthur Murray Dance Studios of Cleveland v. Witter*, 105 N.E.2d 685, 703–04 (Ohio Ct. Com. Pl. 1952). *See also* Restatement (Second) of Contracts (1981) sec. 188 cmt. g ("Postemployment restraints are scrutinized with particular care because they are often the product of unequal bargaining power and because the employee is likely to give scant attention to the hardship he may later suffer through loss of his livelihood.").

[263] *See, e.g.*, *Alexander & Alexander, Inc. v. Danahy*, 488 N.E.2d 22, 29 (Mass. App. Ct. 1986); *Diepholz v. Rutledge*, 659 N.E. 989, 991 (Ill. Ct. App. 1995); *Palmetto Mortuary Transp., Inc. v. Knight Sys., Inc.*, 818 S.E.2d 724, 731 (S.C. 2018).

[264] *See, e.g.*, Jennie E. Brand, *The Far-Reaching Impact of Job Loss and Unemployment*, 41 Ann. Rev. of Socio. 359 (2015); CareerBuilder, *Living Paycheck to Paycheck is a Way of Life for Majority of U.S. Workers, According to New CareerBuilder Survey* (Aug. 24, 2017), https://press.careerbuilder.com/2017-08-24-Living-Paycheck-to-Paycheck-is-a-Way-of-Life-for-Majority-of-U-S-Workers-According-to-New-CareerBuilder-Survey (reporting that 78% of American workers live paycheck to paycheck); Jeff Ostrowski, Bankrate, *Survey: Fewer than 4 in 10 Americans could pay a surprise $1,000 bill from savings* (Jan. 11, 2021), https://www.bankrate.com/banking/savings/financial-security-january-2021/.

loss of a job or an employment opportunity is far more likely to have serious financial consequences for a worker than the loss of a worker or a job candidate would have for most employers. In addition, employers generally have considerable labor market power, due to factors such as concentration and the difficulty of searching for a job.[265] The considerable labor market power of employers has significantly diminished the bargaining power of U.S. workers.[266]

Several additional factors contribute to the imbalance of bargaining power between employers and workers generally. These include the decline in union membership, which forces more workers to negotiate with their employers individually;[267] increased reliance by employers on various forms of outsourcing, which allows employers to fill persistent vacancies without having to raise wages or improve conditions for incumbent workers;[268] and the proliferation of no-poaching agreements, which limit the mobility of workers and, as a result, their bargaining power.[269]

While the employer-worker relationship is defined by an imbalance of bargaining power generally, the imbalance of bargaining power is particularly acute in the context of negotiating employment terms such as non-compete clauses, for several reasons. First, as courts have long recognized, employers are repeat players who are likely to have greater experience and skill at bargaining, in the context of negotiating employment terms, than

[265] Treasury Labor Market Competition Report, *supra* note 41 at i–ii.
[266] *Id.* at ii ("As this report highlights, a careful review of the credible academic studies places the decrease in wages at roughly 20 percent relative to the level in a fully competitive market").
[267] *See, e.g.*, Alan Krueger, *Luncheon Address: Reflections on Dwindling Worker Bargaining Power and Monetary Policy* at 272 (Aug. 24, 2018), https://www.kansascityfed.org/Jackson%20Hole/documents/6984/Lunch_JH2018.pdf.
[268] *Id.*
[269] *Id.* at 273.

individual workers.[270] Second, and relatedly, workers are not likely to seek the assistance of counsel in reviewing employment terms,[271] while employers are more likely to seek the assistance of counsel in drafting them.

Third, research indicates consumers exhibit cognitive biases in the way they consider contractual terms,[272] and the same may be true of workers. Consumers rarely read standard-form contracts.[273] Consumers also tend to focus their attention on a few salient terms of the transaction, such as price and quantity, and tend to disregard other terms, particularly terms that are relatively obscure.[274] Consumers are particularly likely to disregard contingent terms—terms concerning scenarios that may or may not come to pass—or to be unable to assess what the impact of those terms may be.[275] Consumers also tend to disregard onerous terms or terms that involve difficult trade-offs, such as giving up legal rights or future opportunities.[276] Workers likely display similar cognitive biases in the way they consider employment terms. These reasons explain why the imbalance of bargaining power between workers and employers is particularly high in the context of negotiating employment terms such as non-compete clauses.

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[270] *See, e.g.*, *Samuel Stores, Inc. v. Abrams*, 108 A. 541, 543 (Conn. 1919).

[271] In one survey, only 7.9% of workers with non-compete clauses reported consulting a lawyer in connection with the non-compete clause. Starr, Prescott, & Bishara, *supra* note 42, at 72.

[272] *See, e.g.*, Arnow-Richman (2006), *supra* note 56 at 981; Russell Korobkin, *Bounded Rationality, Standard Form Contracts, and Unconscionability*, 70 U. Chi. L. Rev. 1203, 1206 (2003); Robert Hillman & Jeffrey Rachlinski, *Standard-Form Contracting in the Electronic Age*, 77 N.Y.U. L. Rev. 429, 450–54 (2002).

[273] Korobkin, *supra* note 272 at 1206.

[274] Arnow-Richman (2006), *supra* note 56 at 981; Hillman & Rachlinksi, *supra* note 272 at 452.

[275] *See, e.g.*, Estlund, *supra* note 144 at 413 (2006). *See also* Fed. Trade Comm'n, *Credit Practices Rule*, 49 FR 7740, 7744 (Mar. 1, 1984) (noting that consumers tend disregard contingent provisions and concentrate their search on factors such as interest rates and payment terms).

[276] Arnow-Richman (2006), *supra* note 56 at 981; Korobkin, *supra* note 272 at 1203–31.

There is considerable evidence employers are exploiting this imbalance of bargaining power through the use of non-compete clauses. Non-compete clauses are typically standard-form contracts,[277] which, as noted above, workers are not likely to read. The evidence shows workers rarely bargain over non-compete clauses[278] and rarely seek the assistance of counsel in reviewing non-compete clauses.[279] Furthermore, research indicates that, in states where non-compete clauses are unenforceable, workers are covered by non-compete clauses at roughly the same rate as workers in other states,[280] suggesting that employers may believe workers are unaware of their legal rights, or that employers may be seeking to take advantage of workers' lack of knowledge of their legal rights. In addition, there is evidence employers often provide workers with non-compete clauses after they have accepted the job offer—in some cases, on or after their first day of work—when the worker's negotiating power is at its weakest, since the worker may have turned down other job offers or left their previous job.[281]

Because there is a considerable imbalance of bargaining power between workers and employers in the context of negotiating employment terms, and because employers take advantage of this imbalance of bargaining power through the use of non-compete clauses, the Commission preliminarily finds non-compete clauses are exploitative and coercive at the time of contracting.

As noted above, for coercive conduct to constitute unfair method of competition, it must also burden a not insignificant volume of commerce. The Commission

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277 Starr, Prescott, & Bishara, *supra* note 42 at 72 ("Taken together, the evidence in this section indicates that employers present (or employees receive) noncompete proposals as take-it-or-leave-it propositions.").
278 *Id.*
279 *Id.*
280 *Id.* at 81.
281 Marx (2011), *supra* note 55 at 706.

preliminarily finds non-compete clauses burden a not insignificant volume of commerce due to their negative effects on competitive conditions in labor markets and product and service markets, which are described above.[282]

This preliminary finding does not apply to workers who are senior executives. Non-compete clauses for senior executives are unlikely to be exploitative or coercive at the time of contracting, because senior executives are likely to negotiate the terms of their employment and may often do so with the assistance of counsel. The Commission seeks comment on whether there are other categories of highly paid or highly skilled workers (*i.e.*, other than senior executives) to whom this preliminary finding should not apply.

The Commission seeks comment on all aspects of its preliminary finding that non-compete clauses are exploitative and coercive at the time of contracting.

c. Non-Compete Clauses Are Exploitative and Coercive at the Time of the Worker's Potential Departure From the Employer

The Commission preliminarily finds non-compete clauses for workers other than senior executives are exploitative and coercive at the time of the worker's potential departure from the employer, because they force a worker to either stay in a job they want to leave or choose an alternative that likely impacts their livelihood.

For most workers who want to leave their jobs, the most natural employment options will be work in the same field and in the same geographic area. However, where a worker is bound by a non-compete clause, the worker's employment options are significantly limited. A worker who is subject to a non-compete clause, and who wants to leave their job, faces an undesirable choice that will likely affect their livelihood: either

[282] *See supra* Part IV.A.1.a.i–ii.

move out of the area; leave the workforce for a period of time; leave their field for period of time; pay the employer a sum of money to waive the non-compete clause; or violate the non-compete clause and risk a lawsuit from the employer. By forcing a worker who wants to leave their job to either stay in their job or take an action that will likely negatively affect their livelihood, non-compete clauses coerce workers into remaining in their current jobs. Courts have long expressed concern about this coercive effect of non-compete clauses—that non-compete clauses may threaten a worker's livelihood if they leave their job.[283]

Workers have an inalienable right to quit their jobs.[284] The Supreme Court has described this "right to change employers" as a critical "defense against oppressive hours, pay, working conditions, or treatment."[285] Strictly speaking, non-compete clauses do not prevent workers from quitting their jobs. However, non-compete clauses "burden the ability to quit, and with it the ability to demand better wages and working conditions and to resist oppressive conditions in the current job."[286] Non-compete clauses burden the ability to quit by forcing workers to either remain in their current job or, as described above, take an action—such as leaving the labor force for a period of time or taking a job in a different field—that would likely affect their livelihood. For this reason, the Commission finds non-compete clauses are exploitative and coercive at the time of the worker's potential departure.

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[283] *See, e.g.*, *Mitchel*, 1 P. Wms. at 190 (citing "the mischief which may arise from [non-compete clauses] . . . to the party, by the loss of his livelihood").
[284] *Bailey v. Alabama*, 219 U.S. 219, 242 (1911).
[285] *Pollock v. Williams*, 322 U.S. 4, 17–18 (1944).
[286] *See* Estlund, *supra* note 144 at 407.

As noted above, for coercive conduct to constitute unfair method of competition, it must also burden a not insignificant volume of commerce. The Commission preliminarily finds non-compete clauses burden a not insignificant volume of commerce due to their negative effects on competitive conditions in labor markets and product and service markets, which are described above.[287]

This preliminary finding does not apply to workers who are senior executives. Non-compete clauses for senior executives are unlikely to be exploitative or coercive at the time of the executive's departure. Because many senior executives negotiate their non-compete clauses with the assistance of expert counsel, they are likely to have bargained for a higher wage or more generous severance package in exchange for agreeing to the non-compete clause.[288] The Commission seeks comment on whether there are other categories of highly paid or highly skilled workers (*i.e.*, other than senior executives) to whom this preliminary finding should not apply.

The Commission seeks comment on all aspects of its preliminary finding that non-compete clauses are exploitative and coercive at the time of the worker's potential departure from the employer.

2. Non-Compete Clauses Are a Method of Competition

For conduct to be an "unfair method of competition" under Section 5, it must be both "unfair" and a "method of competition." In *Ethyl*, the court distinguished between a "condition" of a marketplace, such as an oligopolistic market structure, and a "method"

[287] *See supra* Part IV.A.1.a.i–ii.

[288] *See, e.g.*, Stewart J. Schwab & Randall S. Thomas, *An Empirical Analysis of CEO Employment Contracts: What Do Top Executives Bargain For?*, 63 Wash. & Lee L. Rev. 231, 256–57 (2006) (noting that 84% of CEO employment contracts that included both a non-compete clause and a severance payment have a severance payment that is equal to or greater than the length of the non-competition period).

of competition, which it described as "specific conduct which promotes" an anticompetitive result.[289] When an employer uses a non-compete clause, it undertakes conduct in a marketplace. This conduct implicates competition; indeed, it has demonstrable effects on competition in both labor markets and markets for products and services.[290] For these reasons, the Commission preliminarily finds non-compete clauses are a method of competition under Section 5. The Commission seeks comment on this preliminary finding.

B. The Justifications for Non-Compete Clauses Do Not Alter the Commission's Preliminary Determination

For the reasons described above in Part IV.A, the Commission preliminarily determines non-compete clauses are an unfair method of competition under Section 5. In this Part IV.B, the Commission preliminarily finds the justifications for non-compete clauses do not alter the Commission's preliminary determination that non-compete clauses are an unfair method of competition.

The circumstances under which a business justification can overcome a finding that conduct is an unfair method of competition are narrow. In *Fashion Originators' Guild of America v. FTC*, the Court held that, in light of "the purpose and object of this combination, its potential power, its tendency to monopoly, [and] the coercion it could and did practice upon a rival method of competition," the Commission did not err by refusing to hear evidence related to justifications, "for the reasonableness of the methods pursued by the combination to accomplish its unlawful object is no more material than

[289] 729 F.2d at 139.
[290] *See supra* Part II.B.

would be the reasonableness of the prices fixed by unlawful combination."[291] In *Atlantic Refining*, the Court similarly held the Commission did not err by refusing to consider "evidence of economic justification for the program," because, while the arrangements at issue "may well provide Atlantic with an economical method of assuring efficient product distribution among its dealers . . . the Commission was clearly justified in refusing the participants an opportunity to offset these evils by a showing of economic benefit to themselves."[292]

Similarly, in *L.G. Balfour Co.*, the Commission challenged as an unfair method of competition the use of exclusive dealing contracts by a firm that manufactured and sold jewelry and other items bearing the insignia of fraternities and high schools. The firm argued the contracts were justified, in part because the fraternities and schools benefitted from uniformity in the design and workmanship of the items. The court reasoned "[w]hile it is relevant to consider the advantages of a trade practice on individual companies in the market, this cannot excuse an otherwise illegal business practice."[293] The court found the exclusive contracts were not justified, because the fraternities and schools had other means for accomplishing the goal of maintaining high quality for their jewelry and because the firm did not establish that its competitors could not satisfy its customers' needs.[294]

In this Part IV.B, the Commission considers the commonly cited business justifications for non-compete clauses but preliminarily finds they do not alter the

[291] 312 U.S. at 467–68.
[292] 381 U.S. at 371.
[293] 442 F.2d at 15, *citing Motion Picture Advert. Serv. Co.*, 344 U.S. 392.
[294] *Id.* at 14–15.

Commission's preliminary determination that non-compete clauses are an unfair method of competition, for two reasons. First, employers have alternatives to non-compete clauses that reasonably achieve the same purposes while burdening competition to a less significant degree. Second, the asserted benefits from these commonly cited justifications do not outweigh the considerable harm from non-compete clauses.

1. Commonly Cited Justifications for Non-Compete Clauses

The most cited justifications for non-compete clauses are that they increase employers' incentive to make productive investments, including in worker training, client attraction, or in creating or sharing trade secrets with workers. According to these justifications, without non-compete clauses, employment relationships are subject to an investment hold-up problem. Investment hold-up occurs where an employer—faced with the possibility a worker may depart after receiving some sort of valuable investment—opts not to make that investment in the first place, thereby decreasing the firm's productivity and overall social welfare. For example, according to these justifications, an employer may be more reticent to invest in trade secrets or other confidential information; to share this information with its workers; or to train its workers if it knows the worker may depart for or may establish a competing firm. Courts have cited these justifications when upholding non-compete clauses under state common law or antitrust law.[295]

As described above in Part II.B.2.e, there is evidence non-compete clauses increase worker training and capital investment (*e.g.*, investment in physical assets, such as machines). Non-compete clauses may increase an employer's incentive to train their

[295] *See, e.g.*, *U.S. v. Addyston Pipe & Steel Co.*, 85 F. 271, 281 (6th Cir. 1898); *Polk Bros., Inc. v. Forest City Enters.*, 776 F.2d 185, 189 (7th Cir. 1985).

workers or invest in capital equipment because workers bound by non-compete clauses are less likely to leave their jobs for competitors. The author of the study assessing effects on capital investment finds there are likely two mechanisms driving these effects. First, firms may be more likely to invest in capital when they train their workers because worker training and capital expenditure are complementary (*i.e.*, the return on investment in capital equipment is greater when workers are more highly trained). Second, non-compete clauses reduce competition, and firms' returns to capital expenditure are greater when competition is lower, incentivizing firms to invest more in capital.[296]

The Commission is not aware of any evidence of a relationship between the enforceability of non-compete clauses and the rate at which companies make other types of productive investments, such as investments in creating or sharing trade secrets. Similarly, the Commission is not aware of any evidence non-compete clauses reduce trade secret misappropriation or the loss of other types of confidential information. The Commission's understanding is there is little reliable empirical data on trade secret theft and firm investment in trade secrets in general, and no reliable data on how non-compete clauses affect these practices. The Commission understands these are difficult areas for researchers to study, due to, for example, the lack of a governmental registration requirement for trade secrets and the unwillingness of firms to disclose information about their practices related to trade secrets.[297]

The Commission is also not aware of any evidence that increased investment due to non-compete clauses leads to reduced prices for consumers. Indeed, the only empirical

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[296] Jeffers, *supra* note 92 at 29.
[297] *See, e.g.*, David S. Levine & Christopher B. Seaman, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, 53 Wake Forest L. Rev. 105, 120–22 (2018).

study of the effects of non-compete clauses on consumer prices—in the health care sector—finds increased final goods prices as the enforceability of non-compete clauses increases.[298]

2. Employers Have Alternatives to Non-Compete Clauses for Protecting Valuable Investments

There are two reasons why the business justifications for non-compete clauses do not alter the Commission's preliminary determination non-compete clauses are an unfair method of competition. The first is employers have alternatives to non-compete clauses for protecting valuable investments. These alternatives may not be as protective as employers would like, but they reasonably accomplish the same purposes as non-compete clauses while burdening competition to a less significant degree.

As noted above, the most commonly cited justifications for non-compete clauses are that they increase an employer's incentive to make productive investments—such as investing in trade secrets or other confidential information, sharing this information with its workers, or training its workers—because employers may be more likely to make such investments if they know workers are not going to depart for or establish a competing firm. However, non-compete clauses restrict considerably more activity than necessary to achieve these benefits. Rather than restraining a broad scope of beneficial competitive activity—by barring workers altogether from leaving work with the employer for a competitor and starting a business that would compete with the employer—employers have alternatives for protecting valuable investments that are much more narrowly tailored to limit impacts on competitive conditions. These alternatives restrict a

[298] *See supra* Part II.B.2.a.

considerably smaller scope of beneficial competitive activity than non-compete clauses because—while they may restrict an employee's ability to use or disclose certain information—they generally do not prevent workers from working for a competitor or starting their own business altogether.[299]

a. Trade Secret Law

Trade secret law provides employers with an alternative means of protecting their investments in trade secrets. Trade secret law is a form of intellectual property law that protects confidential business information.[300] It also serves as an alternative to the patent system, "granting proprietary rights to particular technologies, processes, designs, or formulae that may not be able to satisfy the rigorous standards for patentability."[301] Even where information meets standards for patentability, companies may choose to rely on trade secret law and not obtain a patent, because they wish to keep information out of the public domain.[302]

Trade secret law has developed significantly in recent decades. Prior to the late 1970s, trade secret law across the states was inconsistent, leading to significant uncertainty regarding the scope of trade secret protections and the appropriate remedies for misappropriation.[303] Recognizing the need for more uniform laws, the American Bar Association approved the Uniform Trade Secrets Act ("UTSA") in 1979.[304] Forty-seven

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[299] *See, e.g.*, *MAI Basic Four, Inc. v. Basis, Inc.*, 880 F.2d 286, 287–88 (10th Cir. 1989) (stating that workers subject to NDAs—unlike workers subject to non-compete clauses—"remain free to work for whomever they wish, wherever they wish, and at whatever they wish," subject only to the terms that prohibit them from disclosing or using certain information.").

[300] Brian T. Yeh, Protection of Trade Secrets: Overview of Current Law and Legislation, Cong. Rsch. Serv. Report R43714 (April 22, 2016) at 4.

[301] *Id.*

[302] *Id.* at 4–5.

[303] Uniform Trade Secrets Act With 1985 Amendments (Feb. 11, 1986), Prefatory Note at 1.

[304] *Id.* Prefatory Note at 3.

states and the District of Columbia have adopted the UTSA.[305] The three states that have not adopted the UTSA offer protection to trade secrets under a different statute or under common law.[306]

The UTSA provides a civil cause of action for trade secret misappropriation, which refers to disclosure or use of a trade secret by a former employee without express or implied consent.[307] The UTSA also provides for injunctive and monetary relief, including compensatory damages, punitive damages, and attorney's fees.[308] In some states, under the "inevitable disclosure doctrine," courts may enjoin a worker from working for a competitor of the worker's employer where it is inevitable the worker will disclose trade secrets in the performance of the worker's job duties.[309] The inevitable disclosure doctrine is highly controversial. Several states have declined to adopt it altogether, citing the doctrine's harsh effects on worker mobility.[310] Other states have required employers to meet high evidentiary burdens related to inevitability, irreparable harm, and bad faith before issuing an injunction pursuant to the doctrine.[311]

In addition, in 2016, Congress enacted the Defend Trade Secrets Act of 2016 ("DTSA"), which established a civil cause of action under federal law for trade secret misappropriation.[312] The DTSA brought the rights of trade secret owners "into alignment

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[305] *See* Levine & Seaman, *supra* note 297 at 113.
[306] Yeh, *supra* note 300 at 6 n.37.
[307] UTSA, *supra* note 303 at sec. 1(2).
[308] *Id.* at secs. 2–4.
[309] *See, e.g.*, *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) (affirming the district court's order enjoining an employee from assuming his responsibilities at a competing employer for six months).
[310] *See Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999); *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 471 (Md. 2004).
[311] *See, e.g.*, Eleanore R. Godfrey, *Inevitable Disclosure of Trade Secrets: Employee Mobility v. Employer Rights*, 3. J. High Tech. L. 161 (2004).
[312] Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (May 11, 2016).

with those long enjoyed by owners of other forms of intellectual property, including copyrights, patents, and trademarks."[313] Similar to state laws modeled on the UTSA, the DTSA authorizes civil remedies for trade secret misappropriation, including injunctive relief, damages (including punitive damages), and attorney's fees.[314] The DTSA also authorizes a court, in "extraordinary circumstances," to issue civil *ex parte* orders for the "seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action."[315]

Furthermore, trade secret theft is a federal crime. The Economic Espionage Act of 1996 ("EEA") makes it a federal crime to steal a trade secret for either (1) the benefit of a foreign entity ("economic espionage") or (2) the economic benefit of anyone other than the owner ("theft of trade secrets").[316] The EEA authorizes substantial criminal fines and penalties for these crimes.[317] The EEA further authorizes criminal or civil forfeiture, including of "any property constituting, or derived from, any proceeds obtained directly or indirectly as a result of" an EEA offense.[318] The EEA also requires offenders to pay restitution to victims of trade secret theft.[319]

Under these laws, the term "trade secret" is defined expansively and includes a wide range of confidential information. The UTSA generally defines a "trade secret" as information that (1) derives independent economic value from not being generally known to other persons who can obtain economic value from its disclosure or use and (2) is the

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[313] U.S. Senate, Report to Accompany S. 1890, the Defend Trade Secrets Act of 2016, S. Rept. 114-220 at 3.
[314] 18 U.S.C. 1836(b)(3).
[315] 18 U.S.C. 1836(b)(2).
[316] 18 U.S.C. 1831 (economic espionage); 18 U.S.C. 1832 (theft of trade secrets).
[317] 18 U.S.C. 1831–1832.
[318] 18 U.S.C. 1834, 2323.
[319] 18 U.S.C. 1834, 2323.

subject of reasonable efforts to maintain its secrecy.[320] The DTSA and EEA use a similar definition.[321] The Supreme Court has held "some novelty" is required for information to be a trade secret, because "that which does not possess novelty is usually known."[322] Overall, the definition of "trade secret" covers a wide range of information employers seek to protect from disclosure. As the high court of one state noted, "[t]here is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret."[323]

The viability of trade secret law as a means for redressing trade secret theft is illustrated by the fact that firms regularly bring claims under trade secret law. A recent analysis by the legal analytics firm Lex Machina finds 1,382 trade secret lawsuits were filed in federal court in 2021.[324] Perhaps due to the enactment of the DTSA, the number of cases filed increased 30% from 2015 to 2017—from 1,075 to 1,396 cases—and has remained steady ever since.[325] In addition, an analysis by the law firm Morrison Foerster finds 1,103 trade secret cases were filed in state courts in 2019.[326] The number of cases filed in state court has held steady since 2015, when 1,161 cases were filed.[327] The fact that a considerable number of trade secret lawsuits are filed in federal and state court—approximately 2,500 cases per year—and the fact that this number has held steady for

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[320] UTSA, *supra* note 303 at sec. 1(4).

[321] 18 U.S.C. 1839(3).

[322] *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974).

[323] *U.S. West Commc'ns, Inc. v. Off. of Consumer Advoc.*, 498 N.W.2d 711, 714 (Iowa 1993). *See also Confold Pac., Inc. v. Polaris Indus., Inc.*, 433 F.3d 952 (7th Cir. 2006) (Posner, J.).

[324] Lex Machina, Infographic, *Trade Secret Litigation Report 2021*, https://lexmachina.com/resources/infographic-trade-secret-report/.

[325] Kenneth A. Kuwayti, John R. Lanham, & Candice F. Heinze, Morrison Foerster, Client Alert, *Happy Anniversary, DTSA: The Defend Trade Secrets Act at Five* (May 25, 2021).

[326] *Id.*

[327] *Id.*

several years suggests employers view trade secret law as a viable means of obtaining redress for trade secret theft.

In sum, intellectual property law already provides significant legal protections for an employer's trade secrets. Trade secret law may not be as protective as some firms might like, but overall, it provides employers with a viable means of protecting their investments in trade secrets.

b. Non-Disclosure Agreements

Employers that seek to protect valuable investments also have the ability to enter into NDAs with their workers.[328] NDAs, which are also commonly known as confidentiality agreements, are contracts in which a party agrees not to disclose information the contract designates as confidential. NDAs may also prohibit workers from using information that is designated as confidential. If a worker violates an NDA, the worker may be liable for breach of contract.

Employers regularly use NDAs to protect trade secrets and other confidential business information. Researchers estimate between 33% and 57% of U.S. workers are subject to at least one NDA.[329] In most states, NDAs are more enforceable than non-compete clauses.[330]

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[328] In this NPRM, we use the term "NDA" to refer to contractual provisions that are designed to protect trade secrets or other business information that has economic value. Employers may also seek to use NDAs to protect other kinds of information, such as information about discrimination, harassment, sexual assault, corporate wrongdoing, or information that may disparage the company or its executives or employees. These types of NDAs have been widely criticized for, among other things, their pernicious effects on workers. *See, e.g.*, Rachel Arnow-Richman et al., *Supporting Market Accountability, Workplace Equity, and Fair Competition by Reining In Non-Disclosure Agreements*, UC-Hastings Research Paper Forthcoming at 2–6 (January 2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4022812.

[329] *Id.*

[330] *See* Chris Montville, *Reforming the Law of Proprietary Information*, 56 Duke L.J. 1159, 1179–83 (2007).

The widespread use of NDAs by firms has raised concerns that NDAs may inhibit innovation and worker mobility.[331] Scholars have also raised concerns that overbroad NDAs can function as *de facto* non-compete clauses.[332] However, the protection of trade secrets and other limited confidential business information is widely recognized as a legitimate use of NDAs.[333]

NDAs that are unusually broad in scope may function as *de facto* non-compete clauses, hence falling within the scope of the proposed rule.[334] However, appropriately tailored NDAs, which would fall outside the scope of the proposed rule,[335] burden competition to a lesser degree than non-compete clauses. Such NDAs may prevent workers from disclosing or using certain information, but they generally do not prevent workers from working for a competitor or starting their own business altogether. As the U.S. Court of Appeals for the Tenth Circuit has stated, workers subject to NDAs—unlike workers subject to non-compete clauses—"remain free to work for whomever they wish, wherever they wish, and at whatever they wish," subject only to the terms that prohibit them from disclosing or using certain information.[336]

c. Other Means of Protecting Valuable Investments

In addition to trade secret law and NDAs, employers have additional means of protecting valuable investments. For example, if an employer wants to prevent a worker from leaving right after receiving valuable training, the employer can sign the worker to

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[331] *See* Rex N. Alley, *Business Information and Non-Disclosure Agreements: A Public Policy Framework*, 116 Nw. L. Rev. 817, 832 (2022).

[332] *See, e.g.*, Arnow-Richman et al., *supra* note 328 at 5. *See also Brown*, 57 Cal. App. 5th at 319.

[333] *See* Montville, *supra* note 330 at 1179–83.

[334] *See* proposed § 910.1(b)(2) (describing the functional test for whether a contractual term is a non-compete clause) and *infra* Part V (in the section-by-section analysis for proposed § 910.1(b)).

[335] *Id.*

[336] *MAI Basic Four, Inc.*, 880 F.2d at 287–88.

an employment contract with a fixed duration. An employer can establish a term of employment long enough for the employer to recoup its training investment without restricting a worker's ability to compete with the employer after the worker's employment ends. Employers that wish to retain their workers can also pay the worker more, offer them better hours or better working conditions, or otherwise improve the conditions of their employment. These are all viable alternatives for protecting training investments, and other investments an employer may make, that do not restrict a worker's ability to work for a competitor of the employer or a rival's ability to compete against the worker's employer to attract the worker.

Proponents of non-compete clauses sometimes assert that, without non-compete clauses, firms will be unable to protect their trade secrets or other valuable investments. However, there are three states in which non-compete clauses are generally unavailable to employers today: California, North Dakota, and Oklahoma. In these three states, employers generally cannot enforce non-compete clauses, so they must protect their investments using one or more of the alternatives described above. The experiences of these states suggest the alternatives described above are fundamentally viable for protecting valuable firm investments.

Non-compete clauses have been void in California since 1872, in North Dakota since 1877, and in Oklahoma since 1890.[337] California is a state where large companies have succeeded—it is home to four of the world's ten largest companies by market

[337] Gilson, *supra* note 88 at 616 (California); *Werlinger v. Mutual Service Casualty Ins. Co.*, 496 N.W.2d 26, 30 (N.D. 1993) (North Dakota); Brandon Kemp, *Noncompetes in Oklahoma Mergers and Acquisitions*, 88 Okla. Bar J. 128 (Jan. 21, 2017) (Oklahoma).

capitalization—and it also maintains a vibrant startup culture.[338] Since the 1980s, California has become the global center of the technology sector, and technology firms are highly dependent on protecting trade secrets and other confidential information.[339] (Indeed, researchers have posited that high-tech clusters in California may have been aided by increased labor mobility due to the unenforceability of non-compete clauses.[340]) In North Dakota and Oklahoma, the energy industry has thrived, and firms in the energy industry depend on the ability to protect trade secrets and other confidential information.

The economic success in these three states of industries highly dependent on trade secrets and other confidential information illustrates that companies have viable alternatives to non-compete clauses for protecting valuable investments. Relative to non-compete clauses, these alternatives are more narrowly tailored to limit impacts on competitive conditions.

The Commission seeks comment on its preliminary finding that employers have reasonable alternatives to non-compete clauses for protecting their investments.

3. The Asserted Benefits from These Justifications Do Not Outweigh the Harms from Non-Compete Clauses

The second reason why the commonly cited business justifications for non-compete clauses do not alter the Commission's preliminary determination that non-compete clauses are an unfair method of competition is that, overall, the asserted benefits from these justifications do not outweigh the harms from non-compete clauses.

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[338] Josh Dylan, *What Is Market Cap In Stocks?*, Nasdaq.com (Aug, 12, 2022); Ewing Marion Kauffman Found., *State Entrepreneurship Rankings*, https://www.realclearpublicaffairs.com/public_affairs/2019/02/25/kauffman_foundation_state_entrepreneurship_rankings.html.

[339] *See, e.g.*, Gilson, *supra* note 88 at 594–95.

[340] *Id.*; Fallick, Fleischman, & Rebitzer, *supra* note 89.

As described above, the Commission preliminarily finds that, for some workers, non-compete clauses are exploitative and coercive because they take advantage of unequal bargaining power between employers and workers at the time of contracting.[341] The Commission also preliminarily finds that, for some workers, non-compete clauses are exploitative and coercive at the time of the worker's potential departure from the employer because they force a worker to either stay in a job they want to leave or choose an alternative that likely impacts their livelihood.[342] For these workers, for whom non-competes are facially unfair, the justifications for non-compete clauses must overcome a high bar to alter the Commission's preliminary determination that non-compete clauses are an unfair method of competition.[343]

In addition, non-compete clauses cause considerable harm to competition in labor markets and product and service markets. There is evidence non-compete clauses harm both workers and consumers. Non-compete clauses obstruct competition in labor markets because they inhibit optimal matches from being made between employers and workers across the labor force. The available evidence indicates increased enforceability of non-compete clauses substantially reduces workers' earnings, on average, across the labor force generally and for specific types of workers.[344]

In addition to the evidence showing non-compete clauses reduce earnings for workers across the labor force, there is also evidence non-compete clauses reduce earnings specifically for workers who are not subject to non-compete clauses.[345] These

[341] *See supra* Part IV.A.1.b.
[342] *See supra* Part IV.A.1.c.
[343] *See, e.g.*, *Fashion Originators' Guild*, 312 U.S. at 467–68; *Atl. Refining Co.*, 381 U.S. at 371.
[344] *See supra* Part II.B.1.b.
[345] *See supra* Part II.B.1.c.

workers are harmed by non-compete clauses, because their wages are depressed, but they do not necessarily benefit from any incentives for increased training that non-compete clauses may provide.

Overall, these harms to workers are significant. The Commission estimates that the proposed rule, which would prohibit employers from using non-compete clauses, would increase workers' total earnings by $250 to $296 billion per year.[346]

The available evidence also indicates non-compete clauses negatively affect competition in product and service markets. There is evidence non-compete clauses increase consumer prices and concentration in the health care sector.[347] There is also evidence non-compete clauses foreclose the ability of competitors to access talent by effectively forcing future employers to buy out workers from their non-compete clauses if they want to hire them.[348] The weight of the evidence also indicates non-compete clauses have a negative impact on new business formation and innovation.[349] These harms are significant. For example, with respect to consumer prices in the health care sector alone, the Commission estimates health spending would decrease by $148 billion annually due to the proposed rule.[350]

In the Commission's preliminary view, the asserted benefits from non-compete clauses do not outweigh these harms. In short, while there is considerable evidence non-compete clauses harm both workers and consumers, the evidence that non-compete clauses benefit workers or consumers is scant.

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[346] *See infra* Part VII.B.1.a.
[347] *See supra* Part II.B.2.a.
[348] *See supra* Part II.B.2.b.
[349] *See supra* Part II.B.2.c–d.
[350] *See infra* Part VII.B.2.c.

As described above, the most common justification for non-compete clauses is they increase employers' incentive to make productive investments in, for example, trade secrets, customer lists, worker training, and capital investment. There is evidence non-compete clauses increase employee training and capital investment, as noted above.[351] However, the considerable harms to workers and consumers are not outweighed because an employer has some marginally greater ability to protect trade secrets, customer lists, and other firm investments, or because the worker is receiving increased training, or because the firm has increased capital investments. If they were, workers would have higher earnings when non-compete clauses are more readily available to firms (*i.e.*, when legal enforceability of non-compete clauses increases) or prices for consumers would be lower. However, the empirical economic literature shows workers generally have lower, not higher, earnings when non-compete clause enforceability increases.

Moreover, the Commission is also not aware of any evidence these potential benefits of non-compete clauses lead to reduced prices for consumers. Indeed, the only empirical study of the effects of non-compete clauses on consumer prices—in the health care sector—finds increased final goods prices as the enforceability of non-compete clauses increases.[352] Furthermore, the Commission is not aware of any evidence non-compete clauses reduce trade secret misappropriation or the loss of other types of confidential information. The Commission's understanding is there is little reliable empirical data on trade secret theft and firm investment in trade secrets in general, and no reliable data on how non-compete clauses affect these practices. The Commission is also

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[351] *See supra* Part II.B.2.e.

[352] *See supra* Part II.B.2.a.

not aware of evidence that, in the three states in which non-compete clauses are generally void, the inability to enforce non-compete clauses has materially harmed workers or consumers in those states.

As a result, the Commission preliminarily finds the asserted benefits from non-compete clauses do not outweigh the harms. The Commission seeks comment on this preliminary finding.

V. Section-by-Section Analysis

The Commission is proposing to create a new Subchapter J in Chapter 16 of the Code of Federal Regulations. Subchapter J would be titled "Rules Concerning Unfair Methods of Competition." Within Subchapter J, the Commission is proposing to create 16 CFR part 910—the Non-Compete Clause Rule.[353] The Commission describes each section of the proposed rule below.

Section 910.1 Definitions

Proposed § 910.1 would contain definitions of terms that would be used in the Rule.

1(a) Business Entity

Proposed § 910.1(a) would define the term business entity. This term would be used in proposed § 910.3, which would contain an exception for certain non-compete clauses. Under the exception, the Rule would not apply to a non-compete clause entered into by a person who is selling a business entity or otherwise disposing of all of the person's ownership interest in the business entity, or by a person who is selling all or substantially all of a business entity's operating assets, when the person restricted by the

[353] For ease of reference, this Part V refers to proposed 16 CFR part 910 as "the Rule."

non-compete clause is a substantial owner of, or substantial member or substantial partner in, the business entity at the time the person enters into the non-compete clause. The proposed rule would also use the term business entity in proposed § 910.1(e), which would define substantial owner, substantial member, or substantial partner as an owner, member, or partner holding at least a 25% ownership interest in a business entity.

Proposed § 910.1(a) would define the term business entity as a partnership, corporation, association, limited liability company, or other legal entity, or a division or subsidiary thereof. The Commission is proposing to include divisions and subsidiaries in the definition because it believes the exception in proposed § 910.3 should apply where a person is selling a division or subsidiary of a business entity. The primary rationale for the sale-of-a-business exception in proposed § 910.3—that the exception may help to protect the value of a business acquired by a buyer—would also apply where a person is selling a division or subsidiary of a business entity. Applying the sale-of-a-business exception where a person is selling a division or subsidiary of a business entity would also be consistent with many state laws that exempt non-compete clauses from certain requirements when they are between the seller and buyer of a business, including a division or subsidiary of the business.[354]

The Commission seeks comment on proposed § 910.1(a).

1(b) Non-Compete Clause

Proposed § 910.1(b)(1) would define non-compete clause as a contractual term between an employer and a worker that prevents the worker from seeking or accepting employment with a person or operating a business after the conclusion of the worker's

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[354] *See, e.g.*, Cal. Bus. & Prof. Code sec. 16601; Mass. Gen. Laws Ann. ch. 149, sec. 24L (definition of "noncompetition agreement"); R.I. Gen. Laws sec. 28-59-2(8)(iii).

employment with the employer. The Commission believes this is a generally accepted definition of the term non-compete clause.

Proposed § 910.1(b)(1) would limit the coverage of the Rule to non-compete clauses between employers and workers. The Rule would not apply to other types of non-compete clauses—for example, non-compete clauses between two businesses, where neither is a worker pursuant to the Rule's definition of "worker."[355] While such non-compete clauses would not be covered by the Rule, they would still be subject to federal antitrust law and all other applicable law.

Furthermore, pursuant to proposed § 910.1(b)(1), the Rule would apply only to post-employment restraints—*i.e.*, restrictions on what the worker may do after the conclusion of the worker's employment with the employer. The Rule would not apply to concurrent-employment restraints—*i.e.*, restrictions on what the worker may do during the worker's employment.

Some non-compete clauses do not use language that expressly prohibits a worker from competing against their employer, but instead effect the same restriction by requiring workers to pay damages if they compete against their employer. State courts generally view these contractual terms as non-compete clauses.[356] These contractual terms would also be non-compete clauses under proposed § 910.1(b)(1), because they prevent a worker from seeking or accepting work with a person or operating a business after the conclusion of the worker's employment with the employer (unless the damages specified in the contract are paid).

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355 *See* proposed § 910.1(f).

356 *See, e.g.*, *Wichita Clinic, P.A. v. Louis*, 185 P.3d 946, 951 (Kan. Ct. App. 2008); *Intermountain Eye & Laser Ctrs.*, 127 P.3d 121, 127 (Idaho 2005); *BDO Seidman v. Hirshberg*, 712 N.E.2d 1220, 1222–23 (N.Y. 1999).

Proposed § 910.1(b)(2) would clarify the definition of non-compete clause in proposed § 910.1(b)(1) by explaining that whether a contractual term is a non-compete clause for purposes of the Rule would depend on a functional test. In other words, whether a contractual term is a non-compete clause would depend not on what the term is called, but how the term functions.

In addition to non-compete clauses, employers and workers enter into many other types of covenants that restrict what a worker may do after the worker leaves their job, including, among others, NDAs; non-solicitation agreements; and TRAs.[357] The definition of non-compete clause would generally not include these types of covenants, because these covenants generally do not prevent a worker from seeking or accepting work with a person or operating a business after the conclusion of the worker's employment with the employer. These other types of covenants may affect the way a worker competes with their former employer after the worker leaves their job. However, they do not generally prevent a worker from competing with their former employer altogether; and they do not generally prevent other employers from competing for that worker's labor. For example, if a worker leaves their job with their employer and goes to work for a competitor, an NDA the worker signed with their employer may prevent the worker from disclosing certain information to the competitor. However, a standard NDA would not prevent the worker from seeking or accepting work with the competitor.

The Commission is concerned, however, that some employers may seek to evade the requirements of the Rule by implementing restrictive employment covenants other than non-compete clauses that restrain such an unusually large scope of activity that they

[357] *See supra* Part II.A.

are *de facto* non-compete clauses. Under proposed § 910.1(b)(2), such functional equivalents would be non-compete clauses for purposes of the Rule, whether drafted for purposes of evasion or not.

Courts have taken this approach when analyzing whether a contractual term is a non-compete clause under state law. For example, in *Brown v. TGS Mgmt. Co., LLC*, a California state court held an NDA that defined confidential information "so broadly as to prevent [the plaintiff] from ever working again in securities trading" operated as a *de facto* non-compete clause and therefore could not be enforced under California law, which generally prohibits enforcement of non-compete clauses. The NDA in this case restrained a far broader scope of activity than a typical NDA. For example, it defined "confidential information" as any information that is "usable in" or "relates to" the securities industry. As a result, the court concluded it effectively prevented the worker from working in the securities industry after his employment ended and was therefore a *de facto* non-compete clause.[358] Similarly, in *Wegmann v. London*, the U.S. Court of Appeals for the Fifth Circuit concluded liquidated damages provisions in a partnership agreement were *de facto* non-compete clauses "given the prohibitive magnitudes of liquidated damages they specify."[359]

The purpose of § 910.1(b)(2) is to clarify that, if an employer implements a restrictive covenant not called a "non-compete clause" but so unusually broad in scope it functions as such, the covenant would be within the definition of non-compete clause in proposed § 910.1(b)(1). Proposed § 910.1(b)(2) would state that the term non-compete

[358] 57 Cal. App. 5th 303, 306, 316–319 (Cal. Ct. App. 2020).
[359] 648 F.2d 1072, 1073 (5th Cir. 1981).

clause includes a contractual term that is a *de facto* non-compete clause because it has the effect of prohibiting the worker from seeking or accepting work with a person or operating a business after the conclusion of the worker's employment with the employer.

Proposed § 910.1(b)(2) would also provide two examples of contractual terms that may be de facto non-compete clauses. The first example, based on *Brown v. TGS Mgmt. Co., LLC*, would be a non-disclosure agreement between an employer and a worker written so broadly it effectively precludes the worker from working in the same field after the conclusion of the worker's employment with the employer. The second example, based on *Wegmann v. London*, would be a covenant between an employer and a worker that requires the worker to pay the employer or a third-party entity for training costs if the worker's employment terminates within a specified time period, where the required payment is not reasonably related to the costs the employer incurred for training the worker.

The Commission stresses this list of examples would be a non-exclusive list. Restrictive employment covenants other than NDAs and TRAs may also constitute *de facto* non-compete clauses, depending on the facts. In addition, NDAs and TRAs may constitute *de facto* non-compete clauses under factual scenarios other than the scenarios outlined in these examples.

The Commission seeks comment on proposed § 910.1(b)(1) and (2). In addition, the Commission is concerned that workplace policies similar to non-compete clauses—such as a term in an employee handbook stating workers are prohibited from working for competitors after their employment ends—could potentially have negative effects similar to non-compete clauses if workers believe they are binding, even if they do not impose a contractual obligation. Therefore, the Commission also seeks comment on whether non-compete clause should be defined not only as a "contractual term" between an employer and a worker, but also as a provision in a workplace policy.[360]

1(c) Employer

The Rule would apply only to non-compete clauses between employers and workers.[361] Proposed § 910.1(c) would define employer as a person, as defined in 15 U.S.C. 57b-1(a)(6), that hires or contracts with a worker to work for the person. 15 U.S.C. 57b-1(a)(6) defines person as any natural person, partnership, corporation, association, or other legal entity, including any person acting under color or authority of state law. Thus, proposed § 910.1(c) would effectively define employer as any natural person, partnership, corporation, association, or other legal entity, including any person acting under color or authority of state law, that hires or contracts with a worker to work for the person.

A person, as defined in 15 U.S.C. 57b-1(a)(6), that hires or contracts with a worker to work for the person would be an employer under proposed § 910.1(c) regardless of whether the person meets another legal definition of employer, such as a definition in federal or state labor law.

Some entities that would otherwise be employers may not be subject to the Rule to the extent they are exempted from coverage under the FTC Act. These entities include certain banks, savings and loan institutions, federal credit unions, common carriers, air carriers and foreign air carriers, and persons subject to the Packers and Stockyards Act of

[360] *See, e.g.*, D.C. Code sec. 32-581.01(15).

[361] *See* proposed § 910.1(b)(1).

1921,[362] as well as an entity that is not "organized to carry on business for its own profit or that of its members."[363] Where an employer is exempt from coverage under the FTC Act, the employer would not be subject to the Rule.

Furthermore, state and local government entities—as well as some private entities—may not be subject to the Rule when engaging in action protected by the state action doctrine. States are subject to the antitrust laws.[364] However, under the state action doctrine, federal statutes do not limit the sovereign states' autonomous authority over their own officers, agents, and policies in the absence of clear congressional intent to do so.[365] The key question is whether the conduct at issue is "compelled by direction of the state acting as a sovereign."[366] The state action doctrine may also be invoked by private entities in certain limited scenarios—specifically, where (1) the challenged restraint is clearly articulated as and affirmatively expressed as state policy, and (2) the policy is actively supervised by the state itself.[367] Thus, some entities that would otherwise be employers under proposed § 910.1(c) may not be subject to the Rule when engaging in action protected by the state action doctrine. Where private entities are involved, this would likely require a highly fact-specific inquiry.

The Commission seeks comment on proposed § 910.1(c).

1(d) Employment

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[362] 15 U.S.C. 45(a)(2).
[363] 15 U.S.C. 44.
[364] *Goldfarb v. Va. State Bar*, 421 U.S. 773, 791–92 (1975).
[365] *Parker v. Brown*, 317 U.S. 341, 350–51 (1943) (construing the Sherman Act).
[366] *Goldfarb*, 421 U.S. at 791.
[367] *Cal. Retail Liquor Dealers Ass'n v. Midcal Aluminum, Inc.*, 445 U.S. 97, 105 (1980).

The proposed rule would define the term non-compete clause as a contractual term between an employer and a worker that prevents the worker from seeking or accepting employment with a person, or operating a business, after the conclusion of the worker's employment with the employer. Proposed § 910.1(d) would define employment as work for an employer, as the term employer is defined in § 910.1(c). This proposed definition would clarify that an employment relationship exists, for purposes of the Rule, regardless of whether an employment relationship exists under another law, such as a federal or state labor law. The Commission seeks comment on proposed § 910.1(d).

1(e) Substantial Owner, Substantial Member, and Substantial Partner

The proposed rule would use the terms substantial owner, substantial member, and substantial partner in proposed § 910.3, which would exempt certain non-compete clauses from coverage under the Rule. This exception would only be available where the party restricted by the non-compete clause is a substantial owner of, or substantial member or substantial partner in, the business entity. Limiting the exception to substantial owners, substantial members, and substantial partners would ensure the exception is only available where the seller's stake in the business is large enough that a non-compete clause may be necessary to protect the value of the business acquired by the buyer.

Proposed § 910.1(e) would define substantial owner, substantial member, and substantial partner as an owner, member, or partner holding at least a 25% ownership interest in a business entity. The Commission is proposing a threshold of 25% ownership interest because the Commission believes the exception should be available where, for example, a few entrepreneurs sharing ownership interest in a startup sell their firm. In such a scenario, a non-compete clause may be necessary to protect the value of the business acquired by the buyer. For this reason, a threshold of, for example, 51% may be too high.

However, the Commission believes the exception should not be available where the ownership interest in question is so small the transfer of ownership interest would not be necessary to protect the value of the business acquired by the buyer. For example, the exception should not be available where a worker with a small amount of company stock sells stock back to the company as part of a stock redemption agreement when the worker's employment ends. The Commission believes a 25% threshold strikes the appropriate balance between a threshold that may be too high (and would exclude many scenarios in which a non-compete clause may be necessary to protect the value of the business acquired by the buyer) and a threshold that may be too low (and would allow the exception to apply more broadly than is needed to protect such an interest).

Instead of establishing a threshold, the Rule could simply use the terms substantial owner, substantial member, and substantial partner in proposed § 910.3 and leave the interpretation of those terms to case-by-case adjudication. However, if the Rule does not define a threshold, sellers of businesses may be unsure whether or not they are substantial owners, substantial members, and substantial partners under proposed § 910.3. Defining a threshold would provide greater clarity to the public and facilitate compliance with the Rule.

The Commission seeks comment on proposed § 910.1(e).

1(f) Worker

The Rule would apply only to non-compete clauses between employers and workers.[368] Proposed § 910.1(f) would define worker as a natural person who works, whether paid or unpaid, for an employer. Proposed § 910.1(f) would further state the term worker includes, without limitation, an employee, individual classified as an independent contractor, extern, intern, volunteer, apprentice, or sole proprietor who provides a service to a client or customer.

As this definition states, the term worker would include not only employees, but also individuals classified as independent contractors, as well as other kinds of workers. Under proposed § 910.1(f), the term worker would include any natural person who works, whether paid or unpaid, for an employer, without regard to whether the worker is classified as an "employee" under the Fair Labor Standards Act (FLSA) or any other statute that draws a distinction between "employees" and other types of workers. Thus, gig economy workers such as rideshare drivers would be considered workers for purposes of proposed § 910.1(f).

The Commission is concerned that, if the Rule were to define workers as "employees" according to, for example, the FLSA definition, employers may misclassify employees as independent contractors to evade the Rule's requirements. Furthermore, the Commission has no reason to believe non-compete clauses that apply to workers such as independent contractors or interns negatively affect competitive conditions to a lesser degree than non-compete clauses that apply to employees. Such non-compete clauses may, in fact, be more harmful to competition, given that these other types of workers tend to have shorter employment relationships. In addition, the Commission does not believe

[368] *See* proposed § 910.1(b)(1).

employers have stronger business justifications for applying non-compete clauses to independent contractors than they would to employees.

Proposed § 910.1(f) would also state the term worker does not include a franchisee in the context of a franchisee-franchisor relationship. The Commission believes that, in some cases, the relationship between a franchisor and franchisee may be more analogous to the relationship between two businesses than the relationship between an employer and a worker. In addition, the evidentiary record before the Commission relates primarily to non-compete clauses that arise solely out of employment. The Commission has surveyed the available evidence relating to non-compete clauses and is not aware of research on the effects of applying additional legal restrictions to non-compete clauses between franchisors and franchisees. Therefore, the Commission believes it would be appropriate to clarify that a franchisee—in the context of a franchisor-franchisee relationship—is not a worker for purposes of proposed § 910.1(f).

Proposed § 910.1(f) would further clarify, however, the term worker includes a natural person who works for the franchisee or franchisor. In addition, proposed § 910.1(f) would clarify non-compete clauses between franchisors and franchisees would remain subject to federal antitrust law as well as all other applicable law. These laws include state laws that apply to non-compete clauses in the franchise context. The Commission is not proposing to find that non-compete clauses between franchisors and franchisees are beneficial to competition.

The Commission seeks comment on proposed § 910.1(f).

Section 910.2 Unfair Methods of Competition

2(a) Unfair Methods of Competition

Proposed § 910.2(a) would state it is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or represent to a worker that the worker is subject to a non-compete clause where the employer has no good faith basis to believe the worker is subject to an enforceable non-compete clause. In effect, proposed § 910.2(a) would categorically ban employers from using non-compete clauses, because—as of the compliance date—employers would be prohibited from maintaining pre-existing non-compete clauses and entering into new non-compete clauses.[369]

Part IV above explains the legal basis for the Commission's preliminary determination that the practices listed in proposed § 910.2(a) are unfair methods of competition. This section-by-section analysis for proposed § 910.2(a) describes how each of the three prongs of proposed § 910.2(a) would function and explains why the Commission is proposing a categorical ban on non-compete clauses.

How Proposed § 910.2(a) Would Function

Proposed § 910.2(a) would prohibit an employer from entering into or attempting to enter into a non-compete clause with a worker and maintaining with a worker a non-compete clause. Proposed § 910.2(a) would use both the term "enter into" and the term "maintain" to make clear it is an unfair method of competition for an employer to either (1) enter into or attempt to enter into new non-compete clauses as of the Rule's compliance date or (2) maintain pre-existing non-compete clauses as of the compliance date. The Commission believes non-compete clauses entered into before the compliance date implicate the concerns described above in Part IV to the same degree as non-

[369] However, employers could still use non-compete clauses where they qualify for the exception in proposed § 910.3 for non-compete clauses between the seller and buyer of a business.

compete clauses entered into as of the compliance date.[370] As a result, the Commission believes it would be appropriate to require employers to rescind non-compete clauses entered into before the compliance date, as well as to refrain from entering into or attempting to enter into new non-compete clauses starting on the compliance date.

Furthermore, requiring employers to rescind existing non-compete clauses would not impose significant compliance costs, due to the safe harbor in proposed § 910.2(b)(3). Under this safe harbor, an employer could comply with the requirement to rescind existing non-compete clauses by providing notice to the affected workers. In addition, proposed § 910.2(b)(2)(C) would further reduce compliance costs by providing language that would presumptively meet this notice requirement.

Proposed § 910.2(a) would prohibit an employer from attempting to enter into a non-compete clause with a worker. An employer attempts to enter a non-compete clause with a worker where, for example, the employer provides the worker with the non-compete clause, but the worker does not sign it. The Commission is concerned that attempting to enter into a non-compete clause with a worker would have *in terrorem* effects because, in this situation, the worker may still believe they are subject to a non-compete clause even if they did not sign it. For example, the worker may not recall whether they signed the non-compete clause or may not realize they are not bound by the non-compete clause unless they signed it.

Proposed § 910.2(a) would also prohibit an employer from representing to a worker that the worker is covered by a non-compete clause where the employer has no good faith basis to believe the worker is subject to an enforceable non-compete clause.

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[370] *See supra* Part IV (describing the reasons for the Commission's preliminary determination that non-compete clauses between employers and workers are an unfair method of competition).

Workers often lack knowledge of whether employers may enforce non-compete clauses.[371] In addition, the available evidence indicates that, in states where non-compete clause are void, workers are subject to non-compete clauses at approximately the same rate as workers in other states, suggesting that employers may believe workers are unaware of their legal rights.[372] Because many workers lack knowledge of whether their employer may enforce a non-compete clause under state law, they may also be unaware of any final rule issued by the Commission prohibiting employers from entering into or maintaining non-compete clauses. Employers may seek to exploit this lack of awareness by representing to workers that they are subject to a non-compete clause when they are not. This would likely have an *in terrorem* effect on workers, causing them to refrain from looking for work or taking another job, thereby furthering the adverse effects on competition motivating this proposed rule. As a result, the Commission believes it is appropriate for the Rule to prohibit employers from representing to workers that they are covered by a non-compete clause.

In addition, workers—particularly low-income workers—may lack resources to litigate against their employers. As a result, mere threats to enforce a non-compete clause may deter workers from looking for work with a competitor or starting their own business, which would result in the anticompetitive effects described above in Part IV.A.

Under this "representation" prong of proposed § 910.2(a), an employer would be prohibited from, among other things, threatening to enforce a non-compete clause against a worker; advising a worker that, due to a non-compete clause, they should not pursue a

[371] *See* Prescott & Starr, *supra* note 57 at 10–11.
[372] *See* Starr, Prescott, & Bishara, *supra* note 42 at 81.

particular job opportunity; or simply telling the worker that the worker is covered by a non-compete clause. However, under proposed § 910.2(a), this prohibition on representation would only apply where the employer has no good faith basis to believe the worker is subject to an enforceable non-compete clause. Proposed § 910.2(a) includes this "no good faith basis" exception to ensure the representation prong is consistent with the First Amendment. The Supreme Court has held "there can be no constitutional objection to the suppression of commercial messages that do not accurately inform the public about lawful activity."[373] Accordingly, "[t]he government may ban forms of communication more likely to deceive the public than to inform it, or commercial speech related to illegal activity."[374] A rule that prohibits an employer from representing to a worker that the worker is subject to a non-compete clause—where the employer has no good faith basis to believe that the worker is subject to an enforceable non-compete clause—would meet this test because, under such circumstances, an employer would be making a false claim and asserting an illegal restraint on worker activity. An employer would have no good faith basis to believe that a worker is subject to an enforceable non-compete clause where non-compete clauses are not enforceable in the relevant state or where the validity of the Rule—which would prohibit employers from maintaining or entering into non-compete clauses—has been adjudicated and upheld.

Proposed § 910.2(a) would not apply retroactively. An employer would not violate proposed § 910.2(a) where—prior to the compliance date—it entered into or attempted to enter into a non-compete clause with a worker; maintained with a worker a

[373] *Cent. Hudson Gas & Elec. v. Pub. Serv. Comm'n of N.Y.*, 447 U.S. 557, 563 (1980).
[374] *Id.* at 563–64.

non-compete clause; or represented to a worker that the worker is subject to a non-compete clause. Instead, proposed § 910.2(a) would require employers to refrain from these practices starting on the compliance date.

Why the Commission Is Proposing A Categorical Ban on Non-Compete Clauses

Except for certain non-compete clauses between the seller and buyer of a business,[375] the proposed rule would categorically ban employers from using non-compete clauses with workers. The proposed rule would prohibit an employer from using a non-compete clause with any of its workers, without regard to the worker's earnings or job function.

The Commission is proposing a categorical ban on non-compete clauses because, fundamentally, non-compete clauses obstruct labor market competition through a similar mechanism for all workers. Non-compete clauses block workers in a labor market from switching to jobs in which they would be better paid and more productive. This harms workers who are subject to non-compete clauses. This also harms other workers in the labor market, since jobs that may be better matches for those workers are filled by workers who are unable to leave their jobs due to non-compete clauses.[376] And this harms other firms and potential entrants into the market, who have a more limited pool of workers from which to hire. Regardless of a worker's income or job status, non-compete clauses block workers from switching to jobs in which they would be better paid and more productive—restricting the opportunities of all workers in that labor market.

[375] *See* proposed § 910.3.
[376] *See supra* Part II.B.1.

The available data do not allow the Commission to estimate earnings effects for every occupation. However, the evidentiary record indicates non-compete clauses depress wages for a wide range of subgroups of workers across the spectrum of income and job function—from hourly workers to highly paid, highly skilled workers such as executives. The Commission therefore estimates the proposed rule would increase earnings for workers in all of the subgroups of the labor force for which sufficient data is available.[377] Excluding these workers from the proposed rule would deny these workers the benefits of higher earnings through increased competition in the market for their labor.

The Commission recognizes there are compelling reasons for banning non-compete clauses that apply more strongly to lower-wage workers. Non-compete clauses for lower-wage workers—such as sandwich shop workers, warehouse workers, or security guards[378]—may be more likely than non-compete clauses for higher-wage workers to be exploitative and coercive at the time of contracting and at the time of the worker's potential departure from the employer.[379] In addition, the most commonly cited justifications for non-compete clauses appear particularly weak when applied to relatively lower-wage workers, to the extent such workers are less likely to have access to trade secrets or confidential information.[380]

The Commission believes there are also compelling reasons for banning non-compete clauses that apply more strongly to highly paid or highly skilled workers such as senior executives. As described above, the weight of the available evidence indicates

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[377] *See infra* Part VII.B.1.a.
[378] *See supra* Part II.A (listing illustrative examples of non-compete clauses).
[379] *See infra* Part IV.A.1.b–c.
[380] *See supra* Part IV.B (describing the most commonly cited justifications for non-compete clauses).

non-compete clauses negatively affect new business formation, innovation, and the ability of competitors to hire skilled workers.[381] Non-compete clauses for highly paid or highly skilled workers such as senior executives may be contributing more to these harms than non-compete clauses for some other workers, to the extent such workers may be likely to start competing businesses, be hired by potential entrants or competitors, or develop innovative products and services. Non-compete clauses for highly paid or highly skilled workers such as senior executives may also block potential entrants, or raise their costs, to a high degree, because such workers are likely to be in high demand by potential entrants. As a result, prohibiting non-compete clauses for highly paid or highly skilled workers such as senior executives may have relatively greater benefits for consumers than prohibiting non-compete clauses for other workers.

For these reasons, the Commission preliminarily believes a categorical ban on non-compete clauses would best achieve the objective of the proposed rule, which is to remedy the adverse effects of non-compete clauses on competition in labor markets and product and service markets. However, the Commission also believes several alternatives to a categorical ban may also accomplish the objectives of the proposed rule to some degree, including different standards for senior executives. These alternatives are described in detail in Part VI.

The Commission seeks comment on proposed § 910.2(a).

2(b) Existing Non-Compete Clauses

[381] *See supra* Part II.B.2.b–d.

Proposed § 910.2(b) would clarify employers' obligations, and impose additional requirements, related to non-compete clauses entered into by the employer prior to the compliance date ("existing non-compete clauses").

2(b)(1) Rescission Requirement

Proposed § 910.2(b)(1) would state that, to comply with proposed § 910.2(a)—which states it is an unfair method of competition for an employer to maintain with a worker a non-compete clause—an employer that entered into a non-compete clause with a worker prior to the compliance date must rescind the non-compete clause no later than the compliance date. The reasons why the Commission is proposing this rescission requirement are described above in the section-by-section analysis for proposed § 910.2(a).

The requirements in § 910.2(b)(1)–(3) do not apply where a worker's obligation not to compete elapsed prior to the compliance date. This is because the requirements in § 910.2(b)(1)–(3) derive from § 910.2(a), which establishes it is an unfair method of competition to maintain with a worker a non-compete clause. An employer does not maintain with a worker a non-compete clause, in violation of the Rule, where the obligation not to compete elapsed prior to the compliance date. For example, if a worker left their job in 2019 and was subject to a two-year obligation not to compete, that obligation would have elapsed in 2021, and the employer would not violate the Rule by failing to rescind the non-compete clause.

The Commission seeks comment on proposed § 910.2(b)(1).

2(b)(2) Notice Requirement

Proposed § 910.2(b)(2) would require that the employer provide notice to a worker that the worker's non-compete clause has been rescinded. Proposed § 910.2(b)(2) would have three subparagraphs that would impose various requirements related to the notice.

First, proposed § 910.2(b)(2)(A) would state that an employer that rescinds a non-compete clause pursuant to § 910.2(b)(1) must provide notice to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker. Proposed § 910.2(b)(2)(A) would contain a notice requirement because the Commission believes the available evidence indicates that many workers are not aware of the applicable law governing non-compete clauses or their rights under those laws.[382] As a result, if the Commission were to issue a final Non-Compete Clause Rule, many workers who had entered into non-compete clauses may be unaware that, due to the Rule, their employer is no longer permitted to maintain the non-compete clause. As a result, these workers may continue to refrain from leaving their job to work for a competitor or start their own business. This would negatively affect competitive conditions in the same manner the Commission is concerned about.[383] A notice requirement would help address this concern by ensuring workers are informed that their non-compete clause is no longer in effect and may not be enforced against them.

Proposed § 910.2(b)(2)(A) would state further that the employer must provide the notice to the worker in an individualized communication. As such, an employer could not satisfy the notice requirement by, for example, posting a notice at the employer's

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[382] *See* Prescott & Starr, *supra* note 57 at 10–11.
[383] *See supra* Part IV.A.1.a.

workplace that workers' non-compete clauses are no longer in effect. Proposed § 910.2(b)(2)(A) would also state that the employer must provide the notice on paper or in a digital format such as, for example, an email or text message. As such, a notice communicated orally would not meet the notice requirement. Allowing employers to provide the notice in a digital format would also reduce compliance costs for employers. Proposed § 910.2(b)(2)(A) would also require the employer to provide the notice to the worker within 45 days of rescinding the non-compete clause.

Second, proposed § 910.2(b)(2)(B) would state that the employer must provide the notice to a worker who currently works for the employer. The Commission believes that most employers have contact information available for their current workers and can use this contact information to provide the notice.

Proposed § 910.2(b)(2)(B) would also state that the employer must provide the notice to a worker who formerly worked for the employer, provided that the employer has the worker's contact information readily available. Providing the notice to former workers may be even more vital than providing the notice to current workers because former workers may be refraining actively from competitive activity because they believe they are subject to a non-compete clause. However, employers may not have contact information readily available for all former workers. Proposed § 910.2(b)(2)(B) would therefore require employers to provide the notice to former workers only where the employer has the worker's contact information readily available. The Commission believes that this requirement would strike the appropriate balance between providing notice to affected workers and minimizing compliance costs for employers.

Third, proposed § 910.2(b)(2)(C) would provide model language that would satisfy the requirement in proposed § 910.2(b)(2)(A) that the employer "provide notice to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker." The model language is designed to communicate the relevant information in a simple and straightforward manner. Proposed § 910.2(b)(2)(C) would also clarify that an employer may also use language that is different from the model language, provided that the language communicates to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker. Proposed § 910.2(b)(2)(C) would reduce compliance costs and increase compliance certainty for employers by providing employers with model language they could use, while simultaneously providing employers with the flexibility to use other language that would communicate the required information.

The Commission seeks comment on proposed § 910.2(b)(2)(A)–(C).

2(b)(3) Safe Harbor

Proposed § 910.2(b)(3) would contain a safe harbor for compliance with the rescission requirement in proposed § 910.2(b)(1). Proposed § 910.2(b)(3) would state that an employer complies with the rescission requirement described in § 910.2(b)(1) where it provides notice to a worker pursuant to § 910.2(b)(2). Consequently, to comply with the rescission requirement for purposes of the Rule, an employer could simply send a notice to a worker that is compliant with proposed § 910.2(b)(2). An employer that does so would not need to take any other steps to comply with the rescission requirement in proposed § 910.2(b)(1). The Commission believes that this safe harbor would strike an appropriate balance between ensuring that workers receive adequate notice of their rights under the Non-Compete Clause Rule and minimizing compliance costs for employers.

The Commission seeks comment on proposed § 910.2(b)(3).

Section 910.3 Exception

Proposed § 910.3 would exempt certain non-compete clauses between the seller and buyer of a business from coverage under the Rule. Proposed § 910.3 would state that the requirements of the Rule shall not apply to a non-compete clause that is entered into by a person who is selling a business entity or otherwise disposing of all of the person's ownership interest in the business entity, or by a person who is selling all or substantially all of a business entity's operating assets, when the person restricted by the non-compete clause is a substantial owner of, or substantial member or substantial partner in, the business entity at the time the person enters into the non-compete clause. Proposed § 910.3 would also clarify that non-compete clauses covered by this exception would remain subject to federal antitrust law as well as all other applicable law.

The exception in proposed § 910.3 would apply only in a narrow set of circumstances. The Rule, as a whole, would only apply to non-compete clauses between employers and workers.[384] As a result, the exception in proposed § 910.3 would apply only where the party restricted by the non-compete clause is a worker (for example, where the seller of a business is going to work for the acquiring business). Where the person restricted by the non-compete clause is not a worker, the Rule would not apply as an initial matter.

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[384] *See* proposed § 910.1(b).

The Commission is proposing the exception in § 910.3 because non-compete clauses between the seller and buyer of a business may be unique in certain respects from non-compete clauses arising solely out of employment. Specifically, non-compete clauses between the seller and buyer of a business may be distinct from non-compete clauses that arise solely out of employment because they may help protect the value of the business acquired by the buyer.

This view is consistent with the law of the majority of the states, under which non-compete clauses between the seller and buyer of a business are treated differently from non-compete clauses arising solely out of employment. For example, while non-compete clauses are generally void in California, North Dakota, and Oklahoma, each of these three states exempts non-compete clauses between the seller and buyer of a business from this general rule.[385] In the majority of the 47 states that enforce non-compete clauses under some circumstances, non-compete clauses between sellers and buyers of businesses are reviewed under a more lenient standard than non-compete clauses that arise solely out of employment.[386] A frequently cited reason for this difference in treatment is that such non-compete clauses implicate an additional interest relative to non-compete clauses that arise solely out of employment: they protect the value of the business acquired by the buyer.[387] If non-compete clauses between the seller and buyer of a business help protect the value of the business acquired by the buyer, restricting these types of non-compete clauses could potentially affect business

[385] Cal. Bus. & Prof. Code sec. 16601; N.D. Cent. Code sec. 9-08-06(1); Okla. Stat. Ann. tit. 15, secs. 218 (sale of a business) and 219 (dissolution of a partnership).

[386] *See, e.g.*, Fla. Stat. Ann. sec. 542.335(1)(d); *Hess Newmark Owens Wolf, Inc. v. Owens*, 415 F.3d 630, 634 (7th Cir. 2005); *Jiffy Lube Int'l, Inc. v. Weiss Bros., Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993).

[387] *See, e.g.*, *Strategix, Ltd. v. Infocrossing West, Inc.*, 142 Cal. App. 4th 1068, 1072–73 (Cal. Ct. App. 4th 2006); *Reed Mill & Lumber Co.*, 165 P.3d at 736; *Bybee*, 178 P.3d at 622.

acquisitions, including the incentives of various market actors to start, sell, or buy businesses.

The Commission further notes that the evidentiary record described above in Part II.B relates primarily to non-compete clauses that arise solely out of employment. Unlike non-compete clauses that arise solely out of employment, there has been little empirical research on the prevalence of non-compete clauses between the seller and buyer of a business. The Commission is also not aware of empirical research on the economic effects of applying additional legal restrictions to these types of non-compete clauses. In part, this is because all states permit non-compete clauses between buyers and sellers of businesses to some degree, and because the laws that apply to these types of non-compete clauses have seen fewer changes recently than the laws that apply to non-compete clauses that arise solely out of employment. As a result, there have been few natural experiments that allow researchers to assess how restricting these types of non-compete clauses may affect competition, including any effects on business acquisitions.

For these reasons, the Commission believes it may be appropriate to exempt non-compete clauses between the seller and buyer of a business from coverage under the Rule. Proposed § 910.3 would clarify, however, that these non-compete clauses would remain subject to federal antitrust law and all other applicable law, including state law requiring non-compete clauses to be tailored to protect a legitimate business interest and to be limited in duration, geographic area, and the scope of activity prohibited.

Exempting non-compete clauses between the seller and buyer of a business from coverage under the Rule would not represent a finding that such non-compete clauses are beneficial to competition. It would simply reflect the Commission's view that it would be appropriate to tailor the Rule to non-compete clauses that arise solely out of employment—given that non-compete clauses between the seller and buyer of a business may implicate unique interests and have unique effects, and that the evidentiary record does not permit the Commission to assess these potential effects as thoroughly as the potential effects of restricting non-compete clauses that arise solely out of employment.

The exception in proposed § 910.3 would only apply where the seller of the business is a substantial owner of, or substantial member or substantial partner in, the business at the time the person enters into the non-compete clause. Proposed § 910.1(e) would define substantial owner, substantial member, or substantial partner as an owner, member, or partner holding at least a 25% ownership interest in a business entity. The exception would therefore not allow non-compete clauses to be applied to a business's workers in connection with the sale of a business, where those workers are not substantial owners, members, or partners. The reasons for this proposed 25% threshold are described above in the section-by-section analysis for proposed § 910.1(e).

The Commission seeks comment on proposed § 910.3.

Section 910.4 Relation to State Laws

The Supremacy Clause of the U.S. Constitution provides that the Constitution, and the laws of the United States made pursuant to the Constitution, "shall be the supreme Law of the Land."[388] Hence, federal law preempts any state law that conflicts with the exercise of federal power.[389] Such conflict preemption occurs either "where it is impossible for a private party to comply with both state and federal law" or where state

[388] U.S. Const. art. VI, cl. 2.

[389] *Fid. Fed. Sav. & Loan Ass'n v. de la Cuesta*, 458 U.S. 141, 153 (1982) (citing roots in the Supremacy Clause); *McCulloch v. Md.*, U.S. Supreme Court, 4 Wheat 159 (1819) (citing the Supremacy Clause and the Necessary and Proper Clause (Article I, Section 8, clause 18)).

law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[390] Congressional intent to preempt state law can be expressed in the statutory language itself (express preemption) or implied in the structure and purpose of federal law (implied preemption).[391] Federal regulations "have no less pre-emptive effect than federal statutes,"[392] and agencies themselves, implementing federal statutes, can expressly preempt conflicting state laws and regulations.[393]

In some instances, a federal law may fully preempt contrary state laws. In others, federal law may impliedly or expressly respect the continuing and concurrent exercise of state power, thus setting a regulatory "floor" but not a "ceiling."[394] The Commission notes that "Congress intended the federal antitrust laws to supplement, not displace, state antitrust remedies."[395]

The proposed rule would contain an express preemption provision. Proposed § 910.4 would provide that the Rule shall supersede any state statute, regulation, order, or interpretation to the extent that such statute, regulation, order, or interpretation is inconsistent with the Rule.[396] Proposed § 910.4 would further provide that a state statute, regulation, order, or interpretation is not inconsistent with the provisions of the Rule if the protection such statute, regulation, order, or interpretation affords any worker is greater than the protection provided under the Rule.

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[390] *Crosby v. Nat'l Foreign Trade Council*, 530 U.S. 363, 372–73 (2000).

[391] *Cipollone v. Liggett Grp., Inc.*, 505 U.S. 504, 516 (1992); *Jones v. Rath Packing Co.,* 430 U.S. 519, 525 (1977).

[392] *Fid. Fed. Sav. & Loan Ass'n*, 458 U.S. at 153.

[393] *Id.*; *see also U.S. v. Shimer*, 367 U.S. 374, 383 (1961).

[394] *See, e.g.*, *Oneok, Inc. v Learjet, Inc.*, 575 U.S. 373, 384–85 (2015).

[395] *Cal. v. ARC Am. Corp.*, 490 U.S. 93, 102 (1989).

[396] In this Part V, we refer to state statutes, regulations, orders, or interpretations as "state laws" for ease of reference.

This preemption provision would reflect the Commission's intent that the Non-Compete Clause Rule establish a regulatory floor, not a ceiling. Under the proposed preemption provision, state laws that are inconsistent with the Rule would be preempted. One example would be a state law providing that an employer may enforce a non-compete clause against a worker where the non-compete clause is tailored to a legitimate business interest and reasonably limited in duration, geographic area, and scope of activity prohibited. Such a law would be inconsistent with proposed § 910.2(a), which would state that it is an unfair method of competition—and therefore a violation of Section 5 of the FTC Act—for an employer to enter into, attempt to enter into, or maintain a non-compete clause with a worker. Under proposed § 910.4, proposed § 910.2(a) would preempt the contrary state law to the extent that it conflicts with proposed § 910.2(a).

However, under the second sentence of proposed § 910.4, a state law would not conflict with the provisions of the Rule if the state law afforded greater protection to the worker than the protection provided under the Rule. For example, as noted above, proposed § 910.3 would exempt certain non-compete clauses between the seller and buyer of a business from coverage under the Rule. If a state were to prohibit employers from entering into, attempting to enter into, or maintaining all non-compete clauses—including non-compete clauses between the seller and buyer of a business—an employer could comply with both the state law and the Rule by not entering into, attempting to enter into, or maintaining non-compete clauses between the seller and buyer of a business.

The Commission seeks comment on proposed § 910.4.

Section 910.5 Compliance Date

The proposed rule would establish a separate effective date and compliance date. Under proposed § 910.5, the proposed rule's effective date would be the date that is 60 days after the final rule is published in the *Federal Register*. The proposed rule's compliance date would be the date that is 180 days after the final rule is published in the *Federal Register*. In this NPRM, the Commission refers to the 180-day period between the publication of the final rule and the compliance date as the "compliance period."

Compliance with § 910.2(a). The Commission expects that employers would need to undertake the following two types of tasks during the compliance period to be prepared to comply with § 910.2(a) starting on the compliance date. First, starting on the compliance date, employers would be prohibited from maintaining existing non-compete clauses (*i.e.*, non-compete clauses that the employer entered into with a worker prior to the compliance date).[397] As a result, during the compliance period, an employer would need to assess whether to implement replacements for existing non-compete clauses, such as NDAs; draft those covenants; and then negotiate and enter into those covenants with the relevant workers. Second, an employer would be prohibited from entering into new non-compete clauses starting on the compliance date.[398] As a result, during the compliance period, employers would need to, for example, remove any non-compete clauses from employment contracts that they provide to new workers. The Commission believes that 180 days—or approximately six months—would be enough time for employers to accomplish each of these two tasks.

[397] *See* proposed § 910.2(a).
[398] *Id.*

Compliance with § 910.2(b)(1)–(3). To comply with § 910.2(b)(1)–(3) starting on the compliance date, an employer would be required to rescind, no later than the compliance date, any non-compete clauses that it entered into prior to the compliance date.[399] Where an employer rescinds a non-compete clause, the employer would be required to provide notice to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker.[400] This notice may be provided in a digital format, such as an email or text message.[401] The Rule would require the employer to provide the notice to the worker within 45 days of rescinding the non-compete clause.[402] Employers would be required to provide the notice to current workers, as well as former workers where the employer has the former worker's contact information readily available.[403] To reduce compliance costs, the Rule would provide model language that employers may use for the notice.[404] However, employers would have the flexibility to use language other than the model language, provided that it communicates to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker.[405] The Rule would also provide a safe harbor that would allow an employer to comply with the Rule's rescission requirement by providing a compliant notice.[406] The Commission believes that this would significantly reduce compliance costs. The Commission believes that the 180-day compliance period

399 *See* proposed § 910.2(b)(1).
400 *See* proposed § 910.2(b)(2)(A)–(C).
401 *See* proposed § 910.2(b)(2)(A).
402 *Id.*
403 *Id.*
404 *See* proposed § 910.2(b)(2)(C).
405 *Id.*
406 *See* proposed § 910.2(b)(3).

would provide employers with sufficient time to prepare to rescind existing non-compete clauses no later than the compliance date.

The Commission is proposing an effective date of 60 days after publication of the final rule in the *Federal Register* because it expects that the final rule would likely be a major rule under the Congressional Review Act (CRA). Under the CRA, a "major rule" may not take effect fewer than 60 days after the rule is published in the *Federal Register*.[407] The CRA further states that a rule is a "major rule" if it has an annual effect on the economy of $100 million or more.[408] The Commission believes that the impacts of the proposed rule, if finalized, would be large enough that the final rule would be a major rule under the CRA.[409]

The Commission seeks comment on proposed § 910.5.

VI. Alternatives to the Proposed Rule

In this Part VI, the Commission describes alternatives to the proposed rule.[410] This Part VI addresses the alternatives related to the rule's fundamental design. These alternatives flow from two key questions: (1) whether the rule should impose a categorical ban on non-compete clauses or a rebuttable presumption of unlawfulness, and (2) whether the rule should apply uniformly to all workers or whether there should be exemptions or different standards for different categories of workers. The different

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[407] 5 U.S.C. 801(a)(3)(A).

[408] 5 U.S.C. 804(2).

[409] *See infra* Part VII (analyzing the costs and benefits of the proposed rule).

[410] The Commission intends for this Part VI to satisfy the requirements in Section 22 of the FTC Act that, in an NPRM, the Commission issue a preliminary regulatory analysis that shall contain "a description of any reasonable alternatives to the proposed rule which may accomplish the stated objective of the rule in a manner consistent with applicable law" and "a preliminary analysis of the effectiveness of the proposed rule and each alternative in meeting the stated objectives of the proposed rule." 15 U.S.C. 57b-3(b)(1)(B)–(C).

permutations of the answers to each of these questions yield the different alternatives for the rule's fundamental design.

This Part VI does not generally address alternatives related to the design of specific regulatory provisions. For example, proposed § 910.1(e) defines a substantial owner, substantial member, or substantial partner as an owner, member, or partner holding at least a 25% ownership interest in a business entity. In a final rule, the Commission could set this standard at a different percentage level—for example, 50% or 10%. The Commission seeks comment on these types of granular questions not in this Part VI, but in the section-by-section analysis for the relevant provision in Part V above.

A. Two Key Dimensions of Alternatives

In Part IV above, the Commission preliminarily finds that the use of non-compete clauses by employers is an "unfair" method of competition under Section 5. For workers who are not senior executives, the Commission preliminarily finds that non-compete clauses are "unfair" under Section 5 in three independent ways. First, the use by employers of non-compete clauses is restrictive conduct that negatively affects competitive conditions. Second, non-compete clauses are exploitative and coercive at the time of contracting while burdening a not insignificant volume of commerce. Third, non-compete clauses are exploitative and coercive at the time of the worker's potential departure from the employer while burdening a not insignificant volume of commerce.[411]

For workers who are senior executives, the Commission preliminarily finds that the use by employers of non-compete clauses is "unfair" under Section 5 because such non-compete clauses are restrictive conduct that negatively affects competitive

[411] *See supra* Part IV.A.1. The Commission also preliminarily finds that non-compete clauses are a "method of competition." *See supra* Part IV.A.2.

conditions. Indeed, as described above in Part IV.A.1.a.ii, the Commission preliminarily believes that non-compete clauses for senior executives may harm competition in product markets in unique ways. (The second and third preliminary findings described above—that non-compete clauses are exploitative and coercive at the time of contracting and at the time of a worker's potential departure—do not apply to senior executives.) In Part IV, the Commission seeks comment on whether this different unfairness analysis should also apply to highly paid or highly skilled workers who are not senior executives.

The objective of the proposed rule is to remedy these adverse effects from the use of non-compete clauses. The proposed rule would seek to accomplish this objective by prohibiting an employer from entering into or attempting to enter into a non-compete clause with a worker; maintaining with a worker a non-compete clause; and, under certain circumstances, representing to a worker that the worker is subject to a non-compete clause.[412]

The proposed rule would ban non-compete clauses categorically, with a limited exception for certain non-compete clauses between the seller and buyer of a business.[413] In Part V, the Commission explains why it is proposing a categorical ban on non-compete clauses.[414]

There are two key dimensions of alternatives related to the rule's fundamental design. First, instead of a categorical ban, the Commission could adopt a rebuttable

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[412] *See* proposed § 910.2(a). For ease of reference, this Part VI employs the term "use of non-compete clauses" to refer to the specific conduct that the proposed rule would prohibit.

[413] *See* proposed § 910.3. As described in Part V (in the section-by-section analysis for proposed § 910.1(c)), the proposed rule would also not apply to employers to the extent they are exempt under Section 5(a)(2) of the FTC Act, and the proposed rule may not apply under certain circumstances due to the state action doctrine.

[414] *See supra* Part V, in the section-by-section analysis for proposed § 910.2(a).

presumption of unlawfulness. Under this approach, it would be presumptively unlawful for an employer to use a non-compete clause, but the use of a non-compete clause would be permitted if the employer could meet a certain evidentiary burden, based on a standard that would be articulated in the rule. Second, instead of applying to all workers uniformly, the Rule could include exemptions or different standards for different categories of workers. These exemptions or different standards could be based on a worker's job functions, earnings, another factor, or some combination of factors.

1. Categorical Ban vs. Rebuttable Presumption

The Commission could adopt a rebuttable presumption of unlawfulness instead of a categorical ban. Under this approach, it would be presumptively unlawful for an employer to use a non-compete clause. However, the use of a non-compete clause would be permitted if the employer could meet a certain evidentiary burden, based on a standard that would be articulated in the rule. The rationale behind this approach would be that prohibiting employers from using non-compete clauses is an appropriate default rule in light of the adverse effects on competition from their use in the aggregate; however, there may be specific sets of facts under which their use may be justified, so it would be appropriate to permit employers to use them in those cases.

Conceptually, the rebuttable presumption approach would be similar to "quick look" analysis under antitrust law. In antitrust cases, most restraints are analyzed under the rule of reason, which entails an intensive, fact-specific assessment of market power and market structure to determine a restraint's actual effect on competition.[415] However, where "the great likelihood of anticompetitive effects can be easily ascertained," a court

[415] *See, e.g.*, *Am. Express Co.*, 138 S. Ct. at 2284.

may also adopt a truncated, or "quick look," rule of reason analysis.[416] Courts apply quick look analysis where, "based upon economic learning and the experience of the market, it is obvious that a restraint of trade likely impairs competition."[417] In such cases, "the restraint is presumed unlawful and, in order to avoid liability, the defendant must either identify some reason the restraint is unlikely to harm consumers or identify some competitive benefit that plausibly offsets the apparent or anticipated harm."[418] A rebuttable presumption in the Rule would mirror this approach. Non-compete clauses would be presumed unlawful, based on the "economic learning and experience of the market" summarized in Part IV above, but the use of a non-compete clause would be permitted if the employer could make a showing that satisfies a certain standard.

The rebuttable presumption approach would also be similar in many respects to the current common law governing non-compete clauses. In most states, non-compete clauses are disfavored, but are permitted if an employer can identify a legitimate business interest and if the non-compete clause is reasonable with respect to geographic area, duration, and the scope of activity prohibited.[419] Similarly, under the rebuttable presumption approach, non-compete clauses would be presumptively unlawful but would be permitted under certain circumstances.

One important question related to the rebuttable presumption approach is what the test for rebutting the presumption should be. The Commission preliminarily believes that, if it were to adopt a rebuttable presumption in a final rule, it would adopt a test that is

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[416] *See, e.g.*, *Calif. Dental Ass'n v. Fed. Trade Comm'n*, 526 U.S. 756, 770 (1999).
[417] *Polygram Holding, Inc. v. Fed. Trade Comm'n*, 416 F.3d 29, 36 (D.C. Cir. 2005).
[418] *Id.*
[419] *See supra* Part II.C.1.

more restrictive than the current common-law standard. Otherwise, the Rule would be no more restrictive than current law, and the objective of the Rule—to remedy the adverse effects to competition from employers' use of non-compete clause—would not be achieved.

One option would be a test derived from the quick look test. For example, the rule could allow an employer to rebut the presumption where the employer "shows by clear and convincing evidence that the non-compete clause is unlikely to harm competition in labor markets or product or service markets, or identifies some competitive benefit that plausibly outweighs the apparent or anticipated harm." Alternatively, the test could focus exclusively on either of these two prongs: unlikeliness of harm to competition, or presence of a competitive benefit that plausibly outweighs the apparent or anticipated harm to competition. A term other than "clear and convincing evidence," such as "preponderance of the evidence," could also be used.

Another option would be a test that piggybacks on state law. For example, the rule could allow an employer to rebut the presumption where the employer "shows by clear and convincing evidence that a non-compete clause is necessary to protect a legitimate business interest." This would be a higher standard than the current common law test because it would require an employer to show not only that it has a "legitimate business interest" under state law, but that it cannot protect this interest in another way—for example, through the use of an NDA. The test could also use the term "reasonably necessary" instead of "necessary," or a term other than "clear and convincing evidence, such as "preponderance of the evidence." The Commission could also establish what "legitimate business interests" could justify a non-compete clause and which could not.

The Commission preliminarily believes the categorical ban in the proposed rule would advance the proposed rule's objectives to a greater degree than the rebuttable presumption approach. The Commission is concerned that the rebuttable presumption approach could foster confusion among employers and workers because the question of whether an employer may use a non-compete clause would depend on an abstract legal test rather than a bright-line rule. Under a categorical ban, it would be clear non-compete clauses are prohibited. In contrast, under the rebuttable presumption approach, it may be difficult for both employers and workers to know whether a particular non-compete clause meets the abstract legal test articulated in the rule. For example, it may be difficult for an employer or worker to know whether a particular non-compete clause is "unlikely to harm competition in labor markets or product or service markets," whether "there is some competitive benefit that plausibly outweighs the apparent or anticipated harm," or whether a non-compete clause is "necessary" to protect a legitimate business interest. Furthermore, because only the Commission can enforce a rule issued under Section 6(g), the development of the law—and therefore clarity for employers—would be slow in coming.

However, the rebuttable presumption could also have some advantages over a categorical ban. If there were to be specific factual scenarios, unanticipated by the Commission, in which a particular non-compete clause did not implicate the anticompetitive concerns the Commission is concerned about, the rebuttable presumption would allow the clause to be used.

The Commission seeks comment on whether it should adopt a rebuttable presumption instead of a categorical ban and what the test for rebutting the presumption should be.

2. Uniform Rule vs. Differentiation

In addition to establishing a categorical ban on non-compete clauses, the proposed rule would apply uniformly to all workers. Employers covered by the rule—*i.e.*, employers other than those exempt from coverage under the FTC Act[420]—would be prohibited from using a non-compete clause with a worker, except in limited scenarios where the non-compete clause is between the seller and buyer of a business.[421]

Rather than applying a rule uniformly to all workers, the Commission could apply different rules to different categories of workers based on a worker's job function, occupation, earnings, another factor, or some combination of factors. For example, the rule could ban non-compete clauses for workers generally, but could apply a rebuttable presumption to non-compete clauses for workers whose earnings are above a certain threshold (or could exempt such workers altogether).

This Part VI uses the term "more-lenient standards" to refer to the more relaxed regulatory standards that would apply to certain categories of workers—such as the workers above the earnings threshold in the example above—under this approach. This Part VI also uses the term "more-stringent standards" to refer to the stricter standards that would apply to certain categories of workers, such as the workers below the earnings threshold in the second example above.

[420] *See supra* Part V, in the section-by-section analysis for proposed § 910.1(c), for additional discussion of this issue.
[421] *See* proposed § 910.3.

As described above in Part II.C.1, the recent non-compete clause statutes many states have enacted have generally differentiated among categories of workers. Most of these states have restricted non-compete clauses only for workers below a threshold based on the worker's earnings or a similar factor, such as whether the worker is non-exempt under the FLSA or whether the worker is an hourly worker.[422]

There are three main ways a rule could differentiate among workers. First, a rule could apply different standards to workers based on the workers' job functions or occupations. For example, a rule could apply more-lenient standards to non-compete clauses for senior executives or could exempt them from coverage altogether.

Second, a rule could apply different standards to workers based on some combination of job functions/occupations and a worker's earnings. For example, the rule could apply more-lenient standards to workers who qualify for the FLSA exemptions for "executives" and "learned professionals."[423] Workers qualify for these FLSA exemptions (which exempt the worker from minimum-wage and overtime-pay rules) if they earn above a certain amount and perform certain types of job duties.[424] Another potential alternative could be to apply more-lenient standards to a worker who qualifies for any FLSA exemption.[425]

Third, like the recent state statutes described above, a rule could apply different standards based on the worker's earnings. An earnings threshold could be relatively high (as in, *e.g.*, the State of Washington, where a non-compete clause is void unless the

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422 *See supra* Part II.C.1.

423 *See* 29 CFR 541.100; 29 CFR 541.200.

424 *See* Dep't of Labor, *Fact Sheet #17A: Exemption for Executive, Administrative, Professional, Computer & Outside Sales Employees Under the Fair Labor Standards Act (FLSA)* (Sept. 2019).

425 *See* Dep't of Labor, *Handy Reference Guide to the Fair Labor Standards Act*, entry under Exemptions, https://www.dol.gov/agencies/whd/compliance-assistance/handy-reference-guide-flsa#8.

worker's annual earnings exceed \$100,000 for employees and \$250,000 for independent contractors); in the middle (as in, *e.g.*, Virginia, where employers may not enter into, enforce, or threaten to enforce a non-compete clause with a worker whose average weekly earnings are less than the Commonwealth's average weekly wage); or relatively low (as in, *e.g.*, Maryland, where non-compete clauses are void where a worker earns equal to or less than \$15 per hour or \$31,200 per year).[426] The Commission also believes if it were to adopt a threshold based on earnings, it would be appropriate to index the earnings level to inflation, to ensure as well as possible that the threshold continues to correspond to the Commission's justification for it.

A rule could also differentiate among workers based on a different factor, or based on some combination of factors.

The Commission preliminarily concludes applying the rule uniformly to all workers would advance the proposed rule's objectives to a greater degree than differentiating among workers. As described in Part V above, non-compete clauses obstruct labor market competition in a similar way for all workers, regardless of a worker's income or job status.[427] Whether a labor market includes high earners or low-wage workers, non-compete clauses block workers in that market from switching to jobs in which they would be better paid and more productive—restricting the opportunities of all workers in that labor market. The Commission estimates the proposed rule would increase earnings for workers across the labor force, as well as for workers in all of the subgroups of the labor force for which sufficient data are available—from hourly workers

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[426] *See supra* note 149 and accompanying text.
[427] *See supra* Part V (in the section-by-section analysis for proposed § 910.2(a)).

to highly paid, highly skilled workers such as executives.[428] Excluding these workers from the proposed rule would deny these workers the benefits of higher earnings through increased competition in the market for their labor.

The Commission also preliminarily concludes a rule that applies uniformly to all workers would better ensure workers are aware of their rights under the rule. For example, the Commission believes employers generally know whether a particular worker is exempt under the FLSA, but many workers may not know this themselves. Therefore, if the Rule were to prohibit non-compete clauses with FLSA non-exempt workers, and an employer were to enter into a non-compete clause with an FLSA non-exempt worker in violation of the Rule, the worker may not know whether the non-compete clause is valid.

If the Commission were to adopt a final rule differentiating among categories of workers, it may also adopt a severability clause indicating the Commission intends for the standards to be severable.[429] If a regulatory provision is severable, and one part of the provision is invalidated by a court, the court may allow the other parts of the provision to remain in effect.[430] When analyzing whether a provision is severable, courts consider both (a) the agency's intent and (b) whether severing the invalid parts of the provision would impair the function of the remaining parts.[431] Including a severability clause would clarify the Commission's intent that, if a court were to invalidate the standards for one category of workers, the other standards would remain in effect. The Commission

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[428] *See infra* Part VII.B.1.a.

[429] The Commission may adopt a severability clause even if it did not apply different standards to the different categories of workers.

[430] *See, e.g.*, *Davis Cnty. Solid Waste Mgmt. v. EPA*, 108 F.3d 1454, 1459 (D.C. Cir. 1997).

[431] *Id.* at 1460.

also believes if it were to adopt a final rule differentiating between categories of workers, and a court were to strike down the rules for one category, that would not impair the function of the remaining provisions. If every worker falls into only one category, and one or more (but not all) of the standards were to be invalidated, an employer could simply comply with the standards that remain in effect.

The Commission seeks comment on whether it should differentiate between workers rather than adopting a rule that applies uniformly to all workers. In addition, the Commission seeks comment on what the specific threshold(s) should be.

B. Discrete Alternatives

As described above, there are two key dimensions of alternatives related to the fundamental design of the rule. The first is whether the rule should impose a categorical ban on non-compete clauses or a rebuttable presumption of unlawfulness. The second is whether the rule should apply uniformly to all workers or whether there should be exemptions or different standards for different categories of workers, using one or more thresholds based on a worker's job functions, earnings, some other factor, or some combination of factors. The different permutations of the answers to each of these questions yield the different alternatives for the rule's fundamental design. As a result, the number of potential alternatives to the proposed rule is nearly limitless. However, for the purpose of focusing public comment, this Part VI.B describes four discrete alternatives to the proposed rule. The Commission preliminarily believes each of these alternatives may further the objectives of the proposed rule, to some degree.

For each of the alternatives described below, the Commission could adopt a variety of different thresholds. As described above in Part VI.A.2, a threshold could be based on job functions, the worker's occupation, earnings, some other factor, or some combination of factors. A threshold could be set relatively high, relatively low, or in the middle.

1. Alternative #1: Categorical Ban Below Threshold, Rebuttable Presumption Above

Under Alternative #1, the rule would categorically ban the use of non-compete clauses for some workers and apply a rebuttable presumption of unlawfulness to non-compete clauses for the other workers. For example, the rule could ban non-compete clauses generally, but apply a rebuttable presumption to workers who qualify for the FLSA exemptions for executives or learned professionals.[432] Or the rule could ban non-compete clauses but apply a rebuttable presumption to workers who earn more than $100,000 per year.

The Commission is not proposing this approach due to the preliminary concerns, described above in Parts VI.A.1 and VI.A.2, about the rebuttable presumption approach and about differentiating among categories of workers. However, the Commission seeks comment on this alternative.

2. Alternative #2: Categorical Ban Below Threshold, No Requirements Above

Under Alternative #2, the rule would categorically ban the use of non-compete clauses for some workers and not apply any requirements to the other workers. In effect, the other workers would simply be exempt from coverage under the rule. This approach would be similar to the recent non-compete clause statutes many states have enacted.[433] For example, like the recent State of Washington statute, the rule could prohibit the use

[432] *See supra* note 423–424 and accompanying text.
[433] *See supra* note 149.

of non-compete clauses for employees earning $100,000 or less per year and independent contractors earning less than $250,000 or less per year. Or, like the recent Massachusetts and Rhode Island statutes, the rule could prohibit the use of non-compete clauses for workers who are non-exempt under the FLSA.

The Commission is not proposing this approach due to its preliminary concerns, described above in Part VI.A.2, about differentiating among categories of workers. However, the Commission seeks comment on this alternative.

3. Alternative #3: Rebuttable Presumption for All Workers

Under Alternative #3, the rule would apply a rebuttable presumption of unlawfulness to non-compete clauses for all workers. This approach would be similar to the proposed rule in that it would apply uniformly to all U.S. workers. However, instead of a categorical ban, the rule would apply a rebuttable presumption. The Commission is not proposing this approach due to its preliminary concerns with the rebuttable presumption approach, which are described above in Part VI.A.1. However, the Commission seeks comment on this alternative.

4. Alternative #4: Rebuttable Presumption Below Threshold, No Requirements Above

Under Alternative #4, the rule would apply a rebuttable presumption of unlawfulness to non-compete clauses for some workers and not apply any requirements to the other workers. This approach would be similar to Alternative #2, except that, instead of categorically banning non-compete clauses for workers below the threshold, the rule would apply a rebuttable presumption. The Commission is not proposing this approach due to the preliminary concerns, described above in Parts VI.A.1 and VI.A.2, about the rebuttable presumption approach and about differentiating among categories of workers. However, the Commission seeks comment on this alternative.

The Commission seeks comment on each of these alternatives described in this Part VI.B, including whether the alternative would advance the objectives of the proposed rule to a greater or lesser degree than the proposed rule, and how the Commission should design the rule if it were to adopt the alternative.

C. Different Standards for Senior Executives

In addition to seeking comment generally on whether the rule should apply uniformly to all workers or differentiate between categories of workers,[434] the Commission seeks comment specifically on whether it should adopt different standards for non-compete clauses with senior executives.[435]

The proposed rule would categorically ban non-compete clauses for all workers, including senior executives. However, the Commission recognizes non-compete clauses for senior executives may present distinct concerns. As described in Part IV, the Commission preliminarily finds that, like non-compete clauses for other workers, non-compete clauses for senior executives negatively affect competitive conditions in labor markets.[436] The Commission also preliminarily finds non-compete clauses for senior executives negatively affect competitive conditions in product and service markets, and they may do so in unique ways.[437] However, unlike non-compete clauses for other workers, the Commission does not preliminarily find non-compete clauses for senior

[434] *See supra* Part VI.A.2.

[435] The Commission could also define senior executives as a separate category, but apply the same standards to senior executives as to other workers.

[436] *See supra* Part IV.A.1.a.i.

[437] *See supra* Part IV.A.1.a.ii.

executives are exploitative and coercive at the time of contracting or at the time of the worker's potential departure.[438]

Given that non-compete clauses for senior executives may present distinct concerns, the Commission is interested in the public's views about whether different standards for senior executives would be appropriate. For example, the Commission could adopt a categorical ban on non-compete clauses for workers in general, but apply a rebuttable presumption of unlawfulness for senior executives or exempt senior executives altogether.

The Commission seeks comment on how, if the Commission were to adopt different standards for senior executives, this category of workers should be defined. The Commission is not aware of a generally accepted legal definition of "senior executive." This term may be challenging to define, given the variety of organizational structures used by employers. The Commission could cross-reference a definition in an existing federal regulation, such as the definition of "named executive officer" in Securities and Exchange Commission (SEC) Regulation S-K[439] or the definition of "executive officers" in SEC Rule 3b-7;[440] adopt a definition closely based on a definition in an existing federal regulation; adopt a new definition; define the category according to a worker's earnings; use some combination of these approaches; or use a different approach. The Commission seeks comment on what definition would draw the appropriate line—with respect to which workers should be covered by the different standards—while providing sufficient clarity to employers and workers.

[438] *See supra* Part IV.A.1.b–c.
[439] 17 CFR 229.402(a)(3).
[440] 17 CFR 203.501(f).

In addition, the Commission seeks comment on whether these different standards should also be applied to other highly paid or highly skilled workers who are not senior executives, including specifically how such a category should be defined.

D. Coverage of Non-Compete Clauses Between Franchisors and Franchisees

The proposed rule would state the term “worker” does not include a franchisee in the context of a franchisee-franchisor relationship.[441] As a result, the proposed rule would not cover non-compete clauses between franchisors and franchisees.[442] As described above in Part V, the Commission believes that, in some cases, the relationship between a franchisor and franchisee may be more analogous to the relationship between two businesses than the relationship between an employer and a worker. In addition, the evidentiary record before the Commission relates primarily to non-compete clauses that arise solely out of employment; the Commission has surveyed the available evidence relating to non-compete clauses and is not aware of research on the effects of applying additional legal restrictions to non-compete clauses between franchisors and franchisees. Therefore, the Commission believes it is appropriate to clarify that a franchisee—in the context of a franchisor-franchisee relationship—is not a “worker” for purposes of proposed § 910.1(f).[443] (Proposed § 910.1(f) would explain, however, the term “worker” includes a natural person who works for the franchisee or franchisor, and non-compete clauses between franchisors and franchisees would remain subject to federal antitrust law as well as all other applicable law.)

[441] *See* proposed § 910.1(f).

[442] For ease of reference, this Part VI refers to these types of non-compete clauses as “franchisor/franchisee non-compete clauses.”

[443] *See supra* Part V (in the section-by-section analysis for proposed § 910.1(f)).

While the Commission is not currently proposing to cover franchisor/franchisee non-compete clauses for these reasons, the Commission recognizes that, in some cases, these non-compete clauses may present concerns under Section 5 similar to the concerns presented by non-compete clauses between employers and workers. Many franchise agreements may contain non-compete clauses.[444] By restricting a franchisee's ability to start a new business, franchisor/franchisee non-compete clauses could potentially stifle new business formation and innovation, reduce the earnings of franchisees, and have other negative effects on competitive conditions similar to non-compete clauses between employers and workers. Franchisor/franchisee non-compete clauses could also potentially be exploitative and coercive in some cases, such as where there is an imbalance of bargaining power between the parties. While the relationship between franchisors and franchisees may, in some cases, be more analogous to a business-to-business relationship, many franchisees lack bargaining power in the context of their relationship with franchisors and may be susceptible to exploitation and coercion through the use of non-compete clauses.[445]

For these reasons, the Commission seeks comment on whether the Rule should cover franchisor/franchisee non-compete clauses and why. The Commission also seeks comment on whether, if the Rule were to cover franchisor/franchisee non-compete clauses, they should be categorically banned or subject to a rebuttable presumption of

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[444] *See, e.g.*, Brian Callaci, Sergio Pinto, Marshall Steinbaum, & Matthew Walsh, *Vertical Restraints and Labor Markets in Franchised Industries* (July 6, 2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4155571 (finding that, in a sample of 530 franchising contracts, various types of vertical restraints were prevalent, while not specifically addressing non-compete clauses). The Commission has also frequently encountered non-compete clauses in franchise agreements. *See supra* Part II.D (describing consent orders that restricted a franchisor's ability to enforce non-compete clauses).

[445] *See, e.g.*, Brian Callaci & Sandeep Vaheesan, *Antitrust Remedies for Fissured Work*, Cornell L. Rev. (forthcoming), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4076274 at 21–22.

unlawfulness (and if the latter, what the standard for rebutting the presumption should be). The Commission further seeks comment on whether, if the rule were to cover franchisor/franchisee non-compete clauses, the rule should apply uniformly to all such non-compete clauses or whether certain categories of franchisor/franchisee non-compete clauses should be exempted or subject to different standards. The Commission encourages commenters to submit data or other evidence that could inform the Commission's consideration of this issue.

E. Other Alternatives

This Part VI.E describes two alternatives the Commission believes would likely not further the objectives of the proposed rule. However, this assessment is preliminary. Based on the public comments and the Commission's additional analysis, the Commission could potentially decide to adopt one or both of the alternatives described below in a final rule instead of, or in addition to, the proposed rule or one of the alternatives described above. The Commission seeks comment on each of the two alternatives described in this Part VI.E, as well as whether there are other alternatives not described in Part VI that the Commission should consider.

1. Disclosure Rule

The Commission could potentially adopt disclosure requirements related to non-compete clauses.[446] For example, research suggests many workers often do not find out about non-compete clauses until after they have accepted an employment offer.[447] This concern could be addressed by requiring an employer to disclose to a worker, before

[446] The Commission's Franchise Rule requires non-compete clauses to be disclosed to a franchisee. 16 CFR 436(i); 436(q).
[447] Marx (2011), *supra* note 55 at 706.

making the employment offer, that the worker will be subject to a non-compete clause. The employer could also potentially be required to explain the terms of the non-compete clause and how the worker would be affected by signing the non-compete clause.

While there is evidence disclosure of non-compete clauses to workers prior to acceptance of a job offer may increase earnings, increase rates of training, and increase job satisfaction for that worker,[448] the Commission does not believe this alternative would achieve the objectives of the proposed rule. Merely ensuring workers are informed about non-compete clauses would not address one of the Commission's central concerns: that, in the aggregate, they are negatively affecting competitive conditions in labor markets—including impacts on workers who are not bound by non-compete clauses—and in markets for products and services. Moreover, the benefits of a disclosure rule may be limited due to the differential in bargaining power between many workers and their employers, which would hamper those workers' ability to negotiate for better employment terms.[449]

2. Reporting Rule

The Commission could also potentially require employers to report certain information to the Commission relating to their use of non-compete clauses. For example, employers that use non-compete clauses could be required to submit a copy of the non-compete clause to the Commission. This would enable the Commission to monitor the

[448] Starr, Prescott, and Bishara, *supra* note 42 at 75.
[449] *See supra* Part IV.A.1.b.

use of non-compete clauses. It would also potentially discourage employers from using non-compete clauses where they are clearly not justified under existing law.

However, the Commission does not believe a reporting rule would achieve the objectives of the proposed rule. Merely requiring employers to submit their non-compete clauses to the Commission may not meaningfully reduce the prevalence of non-compete clauses. As a result, it may not remedy the extent to which non-compete clauses adversely affect competitive conditions in labor markets and product and service markets. A reporting rule would also impose significant and recurring compliance costs on employers.

The Commission seeks comment on all aspects of this Part VI, including whether the Commission should adopt one of the alternatives described above, or a different alternative, instead of the proposed rule.

VII. Analysis of Benefits and Costs of the Proposed Rule and Alternatives

The proposed rule would provide it is an unfair method of competition—and thus a violation of Section 5 of the FTC Act—for an employer to enter into or attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or represent to a worker that the worker is subject to a non-compete clause where the employer has no good faith basis to believe the worker is subject to an enforceable non-compete clause.[450] The proposed rule is targeted at increasing competition in labor markets by allowing workers to move more freely between jobs and increasing competition in product markets by ensuring firms are able to hire talented workers and workers are able to found entrepreneurial ventures.

[450] *See* proposed § 910.2(a).

The proposed rule is intended to alleviate two primary competitive problems. First, non-compete clauses anticompetitively interfere in the functioning of labor markets without generating compensating benefits. Non-compete clauses prevent firms from competing for workers' services and increase barriers to voluntary labor mobility, obstructing the smooth functioning of labor markets, resulting in lower wages and diminished worker and firm productivity.

The second competitive problem is non-compete clauses create negative spillovers in labor markets and in product and service markets. In labor markets, non-compete clauses negatively impact workers who are not themselves bound by non-compete clauses by preventing the opening of vacancies and thereby creating mismatches between labor and firms. In product and service markets, non-compete clauses prevent entrepreneurial growth, which negatively impacts consumers by reducing competition in those markets. Non-compete clauses also foreclose competitors' ability to access labor market talent, negatively affecting those competitors' ability to effectively compete in the marketplace. Additionally, non-compete clauses impede innovation, which may negatively impact technological growth rates.

Section 22 of the FTC Act requires the Commission to issue a preliminary regulatory analysis when publishing a proposed rule that would declare a practice to be an unfair method of competition under Section 5 of the FTC Act.[451] The preliminary regulatory analysis must contain (1) a concise description of the need for, and objectives of, the proposed rule; (2) a description of any reasonable alternatives to the proposed rule which may accomplish the stated objective of the rule in a manner consistent with

[451] 15 U.S.C. 57b-3.

applicable law; and (3) for the proposed rule, and for each of the alternatives described in the analysis, a preliminary analysis of the projected benefits and any adverse economic effects and any other effects.[452]

In the preliminary analysis below, we describe the anticipated impacts of the rule as proposed. Where possible, we quantify the benefits and costs. If a benefit or cost is quantified, we indicate the sources of the data relied upon. If an assumption is needed, the text makes clear which quantities are being assumed. We measure the benefits and costs of the rule against a baseline in which no rule regarding non-compete clauses has been promulgated by the Commission. The Commission solicits comments from the public to improve the assumptions used in this preliminary analysis before promulgation of any final rule.

This preliminary analysis attempts to include in its scope the broadest set of economic actors possible. The Commission invites submission of information pertaining to additional economic actors who would be affected by the proposed rule. Several of the benefits and costs described in this analysis are either quantifiable, but not monetizable (especially with respect to separation between transfers, benefits, and costs), or not quantifiable at all. The Commission therefore also invites submission of information which could be applied to quantify or monetize estimates contained in the analysis.

For some of the economic effects of non-compete clauses, conflicting evidence exists in the academic literature. We classify these effects under both benefits and costs, and discuss divergences in the evidence, as well as relative strengths and weaknesses of the evidence.

[452] 15 U.S.C. 57b-3(b)(1)(A)–(C).

The Commission seeks comment on all aspects of the preliminary analysis presented in this Part VII as well as submissions of additional data that could inform the Commission's analysis of the benefits, any adverse economic effects, and any other effects of the proposed rule.

A. Overview of the Effects of the Proposed Rule

In this preliminary regulatory analysis, we have quantified and monetized those costs and benefits for which we are able and described all other costs and benefits. The Commission finds substantial benefits of the proposed rule: workers' earnings would likely increase by $250-$296 billion annually (though some portion of this represents an economic transfer from firms to workers), new firm formation and competition would increase, health care prices would fall (and prices in other markets may fall), and innovation would increase, though several of these benefits overlap (*e.g.*, increases in competition may fully or in part drive decreases in prices and increases in innovation). The Commission also finds some costs of the proposed rule: direct compliance and contract updating would result in $1.02 to $1.77 billion in one-time costs, and firm investment in worker training and capital assets would fall.

The nature of the estimates, however, creates substantial difficulty in calculating a bottom-line present value of the net benefit to the economy of the proposed rule. The Commission believes the substantial labor and product market benefits of the proposed rule would exceed the costs, and additionally would persist over a substantially longer time horizon than some of the one-time costs of compliance and contract updating. However, we do not present here an estimate of the net benefit, as it would necessarily omit major components of both costs and benefits. In particular, the numbers reported above are not comparable in order to estimate the net benefit of the rule: as noted, some portion of the earnings increase estimate represents transfers rather than benefits; several benefits and costs are unmonetized in this analysis; and several of the annualized benefits and costs (including the portion of the earnings increase attributable to benefit) may persist indefinitely, as compared with the one-time compliance and contract updating costs.

B. Estimated Benefits of the Proposed Rule

In this Part VII.B, we describe the beneficial impacts of the proposed rule; provide preliminary quantitative, monetized estimates where possible; and describe benefits we can only assess qualitatively. We enumerate benefits in two broad categories (further divided into subcategories): benefits related to labor markets and benefits related to goods and service markets.

Overall, the Commission estimates worker earnings would increase by $250-$296 billion annually as a result of the proposed rule. While the Commission believes some of this increase represents an economic benefit, some portion of this increase likely represents a transfer of income from firms to workers, or from consumers to workers if firms pass labor costs on to consumers. The Commission also finds, however, the proposed rule would increase the rate of new firm formation, the rate of innovation, and the extent of competition in product and service markets, which may lead to lower prices for consumers, though the sizes of these effects are not quantifiable based on the estimates in the economic literature (except in the case of healthcare).

1. Benefits Related to Labor Markets

By preventing workers from changing employers or embarking upon entrepreneurial ventures, non-compete clauses prevent beneficial labor market competition in two primary ways. First, non-compete clauses prevent workers from leaving their job for higher-paying jobs, or from leveraging such an offer to increase their earnings at their current employer. Second, non-compete clauses reduce voluntary churn in labor markets. While churn is not necessarily beneficial in and of itself, voluntary churn allows workers (who would otherwise be bound by non-compete clauses) and firms to sort into the best possible matches and opens vacancies, which allow workers who are not necessarily bound by non-compete clauses to find better matches. Both mechanisms exhibit, at least in part, as earnings losses for workers when non-compete clauses enforceability increases; however, the extent to which earnings gains associated with the proposed rule represent benefits versus transfers may depend on the mechanism. We describe in which cases we are and are not able to categorize, quantify, and monetize these estimates below.

a. Earnings

The primary impact of the proposed rule is an increase in earnings or earnings growth for workers, and more efficient functioning of labor markets. A full analysis of this benefit would seek to quantify the entire range of heterogeneity in the effect of the proposed rule on earnings. In other words, for any given worker, the likely impact on that worker's earnings is based on whether that worker has a non-compete clause, whether non-compete clauses are broadly used in their occupation/industry/local area, how much that worker earns, that worker's demographics, and much more. While some studies have sought to quantify heterogeneous impacts of non-compete clauses and their enforceability on subgroups of workers, this accounting is limited to fairly small sectors of the population. For this reason, we focus primarily on estimates of average effects across the American labor force, though we provide details on what heterogeneity has been analyzed below.

The study containing the most direct estimate of the increase in workers' earnings given a prohibition on non-compete clauses finds that earnings would increase across the labor force by an average of 3.3-13.9%.[453] For several reasons, we primarily focus on the low end of this range: in addition to generating the most conservative estimate, this range represents an out-of-sample approximation and is furthermore based on enforceability in 2014. Since then, some states have passed legislation causing non-compete clauses to be more difficult to enforce for subsets of their workforces, therefore causing a prohibition on non-compete clauses today to have a slightly lesser effect than a prohibition would have had in 2014.[454] Using total annual wage earnings in the United States for private employers in 2020 (the most recent year with finalized numbers) as a baseline,[455] we estimate a total annual earnings increase of $250.05 billion. We also report the total annual earnings increase that is associated with other levels of the percentage increase in earnings that fall within the range reported in the study in Table 1, in addition to 10-year discounted earnings increases using both 3% and 7% discount rates.

Table 1.

Percentage Increase in Earnings (%)	***Total Annual Earnings Increase ($ billion)***	***Total 10-Year Earnings Increase,***	***Total 10-Year Earnings Increase,***

[453] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 2.

[454] *See supra* Part II.C.1.

[455] National annual earnings are taken from Bureau of Labor Statistics, *Employment and Wages Data Viewer* (last visited Dec. 9, 2022), https://data.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables.

		3% Discount Rate ($ billion)	*7% Discount Rate ($ billion)*
3.3	250.05	2,132.97	1,756.24
5.0	378.86	3,231.78	2,660.98
7.0	530.41	4,524.49	3,725.37
9.0	681.95	5,817.20	4,789.76
11.0	833.50	7,109.91	5,854.15
13.0	985.04	8,402.63	6,918.54
13.9	1,053.24	8,984.35	7,397.51

Another study estimates decreased non-compete clause enforceability would increase earnings by approximately 1%. This study uses, as a control group, occupations which use non-compete clauses at a low rate: the estimate therefore represents the differential effect on occupations which use non-compete clauses at a *high* rate, relative to the control group. While the study does estimate the separate impact of non-compete clause enforceability for each group, there is no way to disentangle this effect from state-specific effects (*e.g.*, that California does not typically enforce non-compete clauses, and also differs from other states in many ways).[456] Since workers in occupations which use non-compete clauses at a low rate may also be affected by changes in non-compete clause enforceability, the reported increase in earnings likely underestimates the impact on the entire labor force. The change in enforceability which generates this estimate is a one standard deviation change, as measured using non-compete clause enforceability

[456] Starr, *supra* note 66 at 792–93.

scores[457] for all 50 states and the District of Columbia in 1991. Applying the 1% earnings effect estimate to each state (based on the scores in 2009), we calculate that each state moving to non-enforceability (as would be the case under the proposed rule) would result in an overall annual earnings increase of $295.9 billion.[458]

The Commission's preliminary finding is therefore the proposed rule would increase workers' earnings workforce-wide by $250-$296 billion annually. We discuss in Part VII.B.1.b the extent to which the Commission believes this increase represents a benefit of the proposed rule versus a transfer.

Four broad classes of workers merit specific attention, as researchers have generated empirical estimates of the effects of non-compete clause enforceability based specifically on those sectors. These classes are (a) high-tech workers; (b) physicians; (c) workers paid on an hourly basis; and (d) CEOs. We clarify that the effects we present on each of these specific classes of workers are contained within the broader estimates presented above: that is, the estimates above contain each of these classes of workers, plus the rest of the labor force. The specific estimates for each class of workers are therefore presented to indicate the range of effects observed in the labor market and to illustrate the scope of empirical work that has been performed on the topic.

i. High-Tech Workers

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[457] Non-compete clause enforceability scores, used for this estimate as well as several others, are calculated using various methods based on legal descriptions provided in various editions of "Non-Compete Clauses: A State-by-State Survey" by Brian M. Malsberger.

[458] The total earnings increase is calculated as the sum over all states of:

$(e^{0.0099*(\text{State's Enforceability Score} - \text{Lowest State Enforceability Score})}-1)*(\text{Total Annual Wages of the State})$

This calculation assumes that all workers benefit from the increase in earnings, as opposed to calculating the benefits to those in high-use occupations versus those in low-use occupations. The benefit of this approach is that it yields a total predicted earnings increase for the economy as a whole, rather than a comparison between different types of workers. However, it is likely an overestimate for workers in low-use occupations, and an underestimate for those in high-use occupations.

One study examines the impact of non-compete clause enforceability on high-tech workers in Hawaii.[459] That study includes estimates for the entirety of the high-tech work force, as well as for newly hired workers. Since the ban in Hawaii did not void previously signed non-compete clauses, while the proposed rule would, we use the estimate for newly hired workers. This is because that estimate reflects the effects on those workers who were subject to a regime with no non-compete clause enforceability. Extrapolating from the estimates for Hawaii to the average impact on high-tech workers in each state, a prohibition such as the one in this proposed rule would increase earnings of high-tech workers in the average state by 4.8%.[460] Caution is recommended in interpreting this extrapolation, however, since results from one sector within one state may not necessarily inform outcomes that would occur in the rest of the country.

ii. Physicians

One study reports the effects of non-compete clause use and enforceability on the earnings growth of physicians.[461]

Due to the limitations of the study design, the main estimate concerns the impact of non-compete clause use on earnings growth, rather than the level of earnings.[462] However, assuming physicians begin at an identical level of earnings, a physician with a non-compete clause would have an estimated 89% earnings growth over a ten-year

459 Balasubramanian et al., *supra* note 68 at S349.

460 The increase in earnings in each state is calculated as $e^{(0.0441*(\text{State's Enforceability Score} - \text{Lowest State Enforceability Score})/(\text{Hawaii's Enforceability Score} - \text{Lowest State's Enforceability Score})}-1$, where 0.0441 represents the impact of Hawaii's prohibition on log earnings for newly hired high-tech workers (Table 2, Panel A, Column 5).

461 Lavetti, Simon, & White, *supra* note 53 at 1025.

462 In Table 4 of the study, the table which reports earnings effects, the authors include a "job-match" fixed effect, which rules out several alternate explanations for the authors' findings but leaves the authors unable to estimate the base effect of having a non-compete clause on earnings.

period, versus an estimated 36% for a physician without a non-compete clause. In other words, the physician with a non-compete clause would have earnings approximately 39% greater than the physician without.[463]

This estimate, however, is based solely on non-compete clause use, and does not consider the impact of enforceability changing. Use of non-compete clauses is likely determined by several characteristics of an employer (*e.g.,* the value of trade secrets or client attraction, productivity gains associated with training, nearness of potential competitors), some of which may also cause changes in earnings levels or earnings growth. Taking the separate effect of non-compete clause enforceability into account, it is possible that the estimated effect on earnings growth would differ from the estimates reported above.

The combined effect of enforceability and use on earnings growth may separately be estimated using another model in the same study.[464] We note that the authors state this model presents only "suggestive evidence." Furthermore, while this model does estimate the effect of non-compete clause use on physicians' earnings (in contrast to that reported above, which only examines earnings growth), as well as the interaction between use and enforceability, it does not report the baseline effect of non-compete clause enforceability, independent of use.[465] Using those estimates, nonetheless, allows for estimation of the impact of simultaneously removing non-compete clause enforceability and non-compete clause use on earnings at various levels of experience (omitting the baseline effect of

[463] Calculated as 1.89/1.36-1=39%.

[464] The estimates are presented in Table 6, Column 2.

[465] In Table 6 of the study, the authors use local market fixed effects: again, these fixed effects are necessary to rule out alternate explanations for their findings, but prevent estimation of the baseline impact of non-compete clause enforceability on earnings.

enforceability, which is not reported). For a physician with 10 years of experience in the state which enforces non-compete clauses most readily, the estimates suggest a prohibition on non-compete clauses and removing that physician's non-compete clause would lead to a 12.7% increase in earnings, in contrast with the results of the model reported above.[466] For the identical situation for a physician with just 1 year of experience, the increase in earnings would be 37.4%. We emphasize, however, that if the baseline effect of enforceability (which the authors are unable to estimate) is large, it could qualitatively change the effect on earnings of a simultaneous change in enforceability and use that we report.

iii. Workers Paid on an Hourly Basis

One study analyzed how Oregon's 2008 prohibition on non-compete clauses for hourly workers impacted their wages.[467] The study estimates Oregon's prohibition increased hourly workers' earnings by 2.3%, with twice the effect (4.6%) on workers in occupations which use non-compete clauses at a relatively high rate.[468] Extrapolating from the estimates for Oregon to the average impact on hourly workers in each state, a prohibition such as the one in this proposed rule would increase earnings of hourly workers in the average state by 2.3%.[469] Caution is recommended in interpreting this

[466] The increase in earnings are calculated as e^{B}-1, where B is the sum of each of the coefficients on NCA, NCA*Log Exp, Bishara Score*NCA, and Bishara Score*NCA*Log Exp, each multiplied by the relevant variable.

[467] Lipsitz & Starr, *supra* note 46 at 143.

[468] *Id.* at Table 3, columns 3 and 4, respectively; percent changes are calculated as e^{b}-1, where b is the relevant reported coefficient.

[469] The increase in earnings in each state is calculated as $e^{(0.023*(\text{State's Enforceability Score} - \text{Lowest State Enforceability Score})/(\text{Oregon's Enforceability Score} - \text{Lowest State's Enforceability Score})}$-1, where 0.023 represents the impact of Oregon's prohibition on log earnings for hourly workers (Table 3, Column 3).

extrapolation, however, since results from one segment of the workforce within one state may not necessarily inform outcomes that would occur in the rest of the country.

iv. CEOs

One estimate of the impact of non-compete clause enforceability finds that moving from full enforceability of non-compete clauses to a prohibition would increase earnings growth by 8.2% and the level of earnings by 12.7% for CEOs.[470] Again ignoring heterogeneity and implementing a linear extrapolation using 2009 enforceability scores, the average CEO would experience a 9.4% increase in earnings due to the prohibition in the proposed rule.[471]

Another study simultaneously examines the effect of *use* of a non-compete clause and the enforceability thereof.[472] This study finds that decreased enforceability of non-compete clauses led to lower earnings for CEOs when use of non-compete clauses is held constant. However, this study also finds that, when non-compete clause enforceability decreases (as it would under the proposed rule), non-compete clause use does not stay constant; it decreases.[473] As a result, the Commission believes the appropriate way to extrapolate based on the findings of this study is to take into account both the impact of non-compete clause enforceability decreasing and the effect of non-compete clause use decreasing.

[470] Garmaise, *supra* note 69 at 376–425. We assume the average level of in-state competition for the estimate of the effect on the level of earnings, as reported in Table 1.

[471] We first calculate the difference between each state's score and the lowest score (which represents a full prohibition) after normalizing scores to a 0 to 1 scale. Then, we find the average of that difference (0.742) and multiply by the estimated change of 12.7% to arrive at 9.4%.

[472] Kini, Williams, & Yin, *supra* note 52 at 4701.

[473] The study estimates that an increase in enforceability of 1 on a 0 to 12 scale increases CEO noncompete use by 10.2 percentage points in their sample. *Id.* at 4718.

When this relationship is taken into account, decreases in non-compete clause enforceability (as would occur under the proposed rule) result in greater earnings for CEOs. The study estimates an increase in enforceability of 1 on a 0 to 12 scale increases CEO noncompete use by 10.2 percentage points in their sample: therefore, a prohibition on non-compete clauses would affect CEOs' earnings via the effect the study attributes to enforceability alone, as well as by changing the use of non-compete clauses by CEOs, which has its own effect on earnings, according to the study.[474]

Assuming a baseline level of enforceability, it is possible to use the estimates from this study to calculate the impact on CEOs' earnings of simultaneously decreasing enforceability and non-compete clause use to zero (which would mirror the effect of the proposed rule). At the highest level of enforceability (9; Florida from 1997-2014), setting enforceability to zero and eliminating non-compete clauses from contracts would increase CEOs' earnings by 11.4%, based on this study. From a lower baseline level of enforceability (for example, 3, as in New York from 1992 to 2014), setting enforceability to zero and eliminating non-compete clauses from contracts would increase earnings by 14.1%.[475]

Based on the results of these two studies, the Commission therefore believes total compensation for CEOs would increase by 9.4% as a result of the proposed rule. This estimate is based on the first study discussed: while the results from the second study are qualitatively similar, the extent to which its results can be extrapolated are murkier due to the reliance on the secondary estimate of how non-compete clause use changes with non-

[474] *Id.*

[475] The estimated impact of an increase in enforceability on CEOs with non-compete clauses is calculated as the effect of the sum of the coefficients on CEO noncompete x HQ Enforce and HQ enforce (i.e., $0.4\%=e^{(0.047-0.043)}-1$).

compete clause enforceability. Ultimately, this finding is in accordance with findings in other segments of the labor force. Similar to typical workers, non-compete clauses prevent employers from competing for the labor of CEOs, including by offering better remuneration. Therefore, CEOs, like other workers, are locked into jobs in ways that prevent them from taking advantage of positive changes in labor market conditions.

b. Discussion of Transfers Versus Benefits

It is difficult to determine the extent to which the earnings effects discussed above represent transfers versus benefits. In the context of this analysis, transfers refer to "monetary payments from one group to another that do not affect total resources available to society."[476] In other words, transfers do not represent a net benefit or cost to the economy as a whole.

Broad increases in earnings when non-compete clauses are prohibited may simply represent a transfer of income from firms to workers (or, if firms pass labor costs on to consumers, from consumers to workers). There may, however, be a related benefit if the earnings increase of workers is related to market power or efficiency in the labor market. In other words, if a prohibition on non-compete clauses leads to a more efficient allocation of labor in the market, perhaps due to a rebalancing of power between workers and employers which decreases monopsony power, then the resulting earnings increases may represent a net benefit to the economy.

Additionally, if earnings increases are due to higher quality matching which results from increased labor market churn, then increased pay reflects a benefit to the economy, since workers' higher pay reflects higher productivity.

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[476] Off. of Mgmt. & Budget, *Circular A-4* (Sept. 17, 2003) at 38.

Several pieces of evidence support the idea that at least part of the increase in earnings represents a social benefit, rather than just a transfer. As described above in Part II.B.1.c, two studies have sought to estimate the external impact of non-compete clause use or enforceability: that is, the effect of use or enforceability on individuals other than those directly affected by use or enforceability.

First, one study demonstrates when the use of non-compete clauses by employers increases, that decreases wages for workers who do not have non-compete clauses but who work in the same state and industry. This study also finds this effect is stronger where non-compete clauses are more enforceable.[477] Since the affected workers are not bound by non-compete clauses themselves, the differential in earnings does not completely represent a transfer due to a change in bargaining power between a worker bound by a non-compete clause and their employer, though available data does not allow for an estimate of the magnitude of transfers versus the total increase in economic benefit.

A second study directly estimates the external impact of a change in non-compete clause enforceability.[478] While use of non-compete clauses is not observed in the study, the impacts of changes in a state's laws are assessed on outcomes in a neighboring state. Since the enforceability of the contracts of workers in neighboring states are not affected by these law changes, the effect must represent a change related to the labor market, which workers in both states share. The estimate suggests workers in the neighboring state experience impacts on their earnings that are 87% as large as workers in the state in

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[477] Starr, Frake, & Agarwal, *supra* note 76 at 961–80.
[478] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 26.

which enforceability changed.[479] In other words, two workers who share a labor market would experience nearly the same increase in their earnings due to a prohibition on non-compete clauses, even if the prohibition only impacts one worker. While the study does not directly estimate the differential effects by use, the effects on workers unaffected by a change in enforceability may be similar to the effects on workers not bound by non-compete clauses.

Overall, these two studies suggest there are market-level dynamics governing the relationship between earnings and the enforceability of non-compete clauses: that restrictions on the enforceability of non-compete clauses impact competition in labor markets by alleviating frictions and allowing for more productive matching. Changes in enforceability or use of non-compete clauses affect earnings of workers who do not have non-compete clauses or who work in local labor markets near, but not in, locations which experience changes in enforceability. If non-compete clauses simply changed the relative bargaining power of workers and firms, without affecting market frictions or competition, then these patterns would not be observed.

With a full accounting of all other costs and benefits, one could perform a "sensitivity analysis" to estimate how much the percentage of earnings increases that represent benefits, rather than transfers, would affect the net impact of the proposed rule. However, as discussed, we are unable to fully monetize, or even quantify, several costs and benefits associated with the proposed rule. We present, instead, a partial sensitivity analysis which answers the question: for a given level of costs, what percentage of the earnings increases would offset those costs? The costs may be interpreted as the overall

[479] Calculated as -0.181/-0.207=87%. Coefficients taken from *id.* at Table 6, Column 2.

net cost of the rule, excluding benefits associated with earnings increases: that is, the costs listed in the table are the direct compliance and contract updating costs, plus the nonquantifiable and nonmonetizable costs, minus all benefits, excluding benefits associated with earnings increases.

The estimates are presented in Table 2. In order to present the most conservative estimates possible, we assume the earnings increase represents the lowest end of the range we estimate from the empirical literature ($250.05 billion). We discount annually at the rate of 7% (which is more conservative than a 3% discount rate, given that the costs are more front-loaded than the benefits due to the upfront compliance costs and costs of contract updating), and assume that annualized benefits and costs persist for 10 years. The first estimate, for zero or negative net cost, demonstrates that, if the non-earnings-related benefits of the proposed rule outweigh the total costs of the proposed rule, then the costs are already offset, and no portion of the earnings increase must be a benefit. The next estimate for costs is the midpoint of the estimates presented for direct compliance and contract updating costs, as estimated in Part VII.C: if the costs of the proposed rule (excluding direct compliance and contract updating costs) exactly offset the benefits (excluding earnings-related benefits), then if 0.08% of the earnings increases are benefits, they would exactly offset the estimated $1.394 billion costs of direct compliance and contract updating (where that estimate is the midpoint of the estimated range). While the Commission does not have detailed or complete enough quantifiable and monetizable estimates to determine whether net costs are positive or negative, the rest of Table 2 presents estimates for the portion of the earnings increase which would offset net costs greater than $1.394 billion, should they exist.

Table 2.

Net Cost Estimate ($ million)	***Portion of Earnings Increase that Offsets the Cost Estimate***
0 or Negative	0.00%
1,394	0.08%
5,000	0.28%
10,000	0.57%
15,000	0.85%
20,000	1.14%
25,000	1.42%
30,000	1.71%
35,000	1.99%
40,000	2.28%
45,000	2.56%
50,000	2.85%

2. Benefits Related to Product and Service Markets

There is evidence the proposed rule would positively impact the markets for products and services in multiple ways. Studies show that new firm formation would rise under a prohibition on non-compete clauses, for two primary reasons: first, workers would be free to form spin-offs which compete with their employers, contributing to increased competition and growth. Second, firms are more willing to enter markets in which they know there are potential sources of skilled and experienced labor, unhampered by non-compete clauses.

Another possible benefit of the proposed rule related to markets for products and services is that worker flows across employers contribute to knowledge sharing, resulting in increased levels of innovation.

We note that, to the extent productivity increases of firms may be shared with workers, some of the benefits outlined in this Part VII.B.2 may overlap with the earnings estimates outlined above in Part VII.B.1.a. Similarly, to the extent harms to incumbent firms (due to, *e.g.*, increased competition) may negatively impact workers, those would also be reflected in the earnings estimates.

a. Increased Firm Formation and Competition

Intra-industry employee spinoffs (*i.e.*, firms formed by entrepreneurs who previously worked for a firm against which they now compete—also known as within-industry spinouts or WSOs) have been shown to be highly successful, on average, when compared with typical entrepreneurial ventures.[480] Non-compete clauses typically reduce the prevalence of intra-industry spinoffs, and therefore prevent entrepreneurial activity that is likely to be highly successful. One estimate implies that a one-standard-deviation increase in non-compete clause enforceability decreases the rate of WSOs by 0.13 percentage points (against a mean of 0.4%).[481] The proposed prohibition, by extrapolation, would result in an overall increase in the rate of WSOs by 0.56 percentage points, which would more than double the rate of WSOs. We note this is a linear approximation and cannot account for heterogeneous effects of enforceability across

[480] For reviews of the literature, *see, e.g.*, Steven Klepper, *Spinoffs: A Review and Synthesis*, 6 European Mgmt. Rev. 159–71 (2009) and April Franco, *Employee Entrepreneurship: Recent Research and Future Directions*, in Handbook of Entrepreneurship Research (2005) 81–96.

[481] Starr, Balasubramanian, & Sakakibara, *supra* note 87 at 561.

states, nor can it account for nonlinearities in the impact of enforceability (as neither analysis is reported in the study).

The study also estimates the impact on the entry rate of non-WSOs (*i.e.,* spinoffs into other industries), and calculates a coefficient statistically indistinguishable from zero (0.07 percentage point increase associated with a one standard deviation increase in enforceability).[482]

Another study similarly estimates the impacts of non-compete clause enforceability on departures of employees to found new firms, as well as on all new firm entry.[483] These outcomes differ slightly from the ones previously reported: for employee departures to found new firms, the target industry of the employee spinoff is not reported (so the effect encompasses both within-industry and out-of-industry spinoffs). The latter outcome encompasses all new firm entry, not just spinoffs. There are pros and cons of this approach, relative to studying only spinoffs. On the one hand, it examines an outcome less likely to be directly impacted by non-compete clauses. On the other hand, if firms are encouraged to enter when non-compete clauses are more easily enforceable (due to, *e.g.*, greater projected protection of knowledge assets), then this approach will likely identify effects that may appear only weakly when looking just at spinoffs.

For each outcome, the estimated effect of an increase in non-compete clause enforceability (which is, in this study, measured by a collection of discrete legal changes) is negative: an increase in non-compete clause enforceability decreases the rate at which employees leave to become founders of firms by 0.78 percentage points, against a mean

[482] *Id.* at 561.
[483] Jeffers (2019), *supra* note 92 at 1.

in the sample of 5% (though the result is statistically indistinguishable from zero),[484] and decreases the rate of new firm entry by 0.06 firms per million people (against a mean of 0.38) for firms in the knowledge sector, compared with firms in other sectors (for which there is no statistically significant effect). Due to the design of the study, the change in legal enforceability is not quantified, and therefore no extrapolation is possible to the country as a whole.

Three more estimates related to firm entry exist in the literature. One examines the differential impacts of venture capital ("VC") funding on firm entry: it finds a 1% increase in VC funding increases business formation by 2.3% when non-compete clauses are not enforceable, and by 0.8% when non-compete clauses are enforceable.[485] Another study examined the extent to which a legal enforceability increase in Michigan affected firm entry, and found that, among all sectors, there was no change in the entry rate of new firms (none of the estimated coefficients were statistically significant).[486] Among high-tech firms, the increase in enforceability was associated with a 40.3% increase in entry when compared with states that did not enforce non-compete clauses. However, the study also notes that, compared with its neighbors, or using a statistical technique to match Michigan's trend in firm entry (synthetic control method), the estimated effect was statistically indistinguishable from zero. Finally, a study examining the effect of an increase in enforceability in Florida found small firm (fewer than 50 employees) entry

[484] The estimated effect is statistically significant at the 10% level, and nearly doubles to 0.014, when attention is focused on firms which employ at least 40% of workers in the state in which their headquarters resides. This is important because it ensures that a greater portion of the workforce is subject to the local non-compete clause policy regime: a broadly dispersed company has workers subject to many different legal policies surrounding non-compete clauses, and it is therefore not surprising that the estimate is unable to distinguish a large impact of the policy changes.

[485] Samila & Sorenson, *supra* note 112 at 425–38.

[486] Carlino, *supra* note 86.

fell by 5.6%, while large firm (greater than 1,000 employees) entry increased by 8.5%. Similarly, employment at large businesses rose by 15.8% following the change, while employment at smaller businesses effectively did not change.[487] The net effect was a 4.4% increase in concentration, as measured by a Herfindahl-Hirschman Index, due to the overall increase in the size of firms. It is important to note that firm entry, in this study, is not necessarily new business formation. Indeed, the authors describe many business entries into Florida are existing businesses which are seeking to move or establish new franchises. The observed effects may therefore be due to relocations across state lines, which would likely not occur under the proposed rule.

For the previously mentioned three sets of estimates, it is again difficult to extrapolate to a population-wide measure of impact, since the "size" of the enforceability change is not quantified.

In Part II.B.2.c above, the Commission states the weight of the evidence demonstrates new firm formation would increase under the proposed rule; however, the Commission is unable to extrapolate from the studies which examine this outcome in order to quantify or monetize the effect.

b. Innovation

Scholars have posited that a lack of non-compete clause enforceability led Silicon Valley to become a hub of technological innovation. One paper theorizes that, as workers freely flowed between knowledge firms, those workers shared ideas and generated innovations greater than what a fixed set of workers, not interacting with outside workers,

[487] Kang & Fleming, *supra* note 120 at 674.

could have generated.[488] Studies have shown labor mobility is greater when non-compete clauses are more difficult to enforce.[489] However, those same studies did not directly show innovation is aided by the free flow of knowledge workers.

If non-compete clauses inhibit innovation by creating barriers to knowledge-sharing, then a prohibition on non-compete clauses, by alleviating those barriers, would increase innovation. Studies have sought to directly quantify this effect, primarily focused on patenting activity.

One study examined the impact of non-compete clause enforceability on venture capital's relationship with innovation. The study found that, when non-compete clauses are enforceable, venture capital induced less patenting, by 6.6 percentage points.[490] Two other studies directly focused on the relationship between non-compete clause enforceability and patenting. One, examining seven changes in non-compete clause enforceability, finds a 26.6% decline in the value of patents (as measured by changes in stock prices surrounding the date a patent is granted) associated with increases in non-compete clause enforceability.[491] The other, examining the impact of a legal change in enforceability in Michigan, finds an increase in non-compete clause enforceability leads to an increase in the number of patents per 10,000 residents of 0.054 (against a mean of 2.20 in Michigan prior to the legal change).[492] There is no clear reason for this discrepancy in findings. It may be due to the setting being studied: the study finding a 26.6% decline in patent value considers several legal changes in non-compete clause

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[488] Gilson, *supra* note 88.
[489] See, *e.g.,* Fallick, Fleischman, & Rebitzer, *supra* note 89 at 472–81; Johnson, Lavetti, & Lipsitz, *supra* note 42.
[490] Samila & Sorenson, *supra* note 112 at 432.
[491] He, *supra* note 124 at 22.
[492] Carlino, *supra* note 86 at 40.

enforceability, rather than just using one (as in the Michigan study) or relying on cross-sectional differences (as in the study of venture capital).

While the Commission believes the strongest evidence (due to the robustness of the findings across several legal changes) indicates innovation would likely increase under the proposed rule, as described above in Part II.B.2.d, the Commission is unable to extrapolate from the relevant studies to quantify or monetize this benefit.

c. Prices

Several of the effects discussed above, as well as costs of the proposed rule on products and service markets, may possibly filter through to consumer prices. Prices, therefore, may act as a summary metric for the impacts on consumers. We note this metric is highly imperfect: for example, increased innovation due to the proposed rule could cause quality increases in products, which drives prices up. Consumers may be better off, even though prices increased. For this reason, as well as to avoid double-counting (since prices may take into account changes in innovation, investment, market structure, wages, and other outcomes), we consider evidence on prices to be corroborating evidence, rather than a unique cost or benefit on its own.

One study estimates the impact of non-compete clause enforceability on consumer prices in the market for physician services.[493] The study estimates moving from the lowest observed non-compete clause enforceability score to the highest would increase prices by 53.3%. Extrapolating to the effect of the proposed prohibition nationwide (using 2009 enforceability scores), and applying percentage price decreases to state-level

[493] Hausman & Lavetti, *supra* note 101 at 258.

physician spending,[494] we estimate health spending would decrease by $148.0 billion annually. We note, again, this is a large (linear) extrapolation from the estimate provided in the study. Furthermore, this amount is partially a transfer from physician practices to consumers, and additionally, we reiterate this estimate likely encompasses some of the prior estimates (*i.e.*, those regarding new firm formation or innovation), and we therefore do not count it as a standalone benefit of the proposed rule.

With respect to other industries, if the relationship between non-compete clause enforceability and prices observed in healthcare markets holds, the Commission believes prices would decrease, product and service quality would increase, or both under the proposed rule. Insofar as such effects may be driven by increases in competition (see Part VII.B.2.a), it is likely output would also increase. However, the evidence in the economic literature is solely based on healthcare markets (which do comprise a large portion of spending in the United States, but are far from all consumer spending), and while there is evidence that there are relationships between non-compete clause enforceability and concentration, innovation, new firm formation, and other product market outcomes, the Commission cannot say with certainty similar effects would be present for other products and services.

In many settings, it is theoretically plausible increases in worker earnings from restricting non-compete clauses may increase consumer prices by raising firms' costs

[494] The latest available numbers are from 2014. *See* Ctrs. for Medicare & Medicaid Servs., *National Health Expenditure Data*, *Health Expenditures by State of Provider*, 1980–2014 (last visited Dec. 9, 2022), https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsStateHealthAccountsProvider. We use physician and clinical spending in 2014 by state of provider.

(though there is countervailing evidence, especially in goods manufacturing).[495] We note an absence of empirical evidence that this mechanism persists in practice, as well as countervailing forces, such as the impacts on concentration described above and positive impacts on innovation (see Part II.B.2.d). Additionally, greater wages for workers freed from non-compete clauses may be due to better worker-firm matching, which could simultaneously increase wages and increase productivity, which could lead to lower prices. Finally, as described in Part II.B.2.a, increases in healthcare prices are not due to pass-through of greater labor costs.

C. Estimated Costs of the Proposed Rule

In this Part VII.C, we describe the costs associated with the proposed rule; provide preliminary quantitative, monetized estimates where possible; and describe costs we can only assess qualitatively. We welcome public comment regarding the scope of the costs outlined in this Part VII.C, especially with respect to direct compliance costs and the costs of updating contractual practices.

The Commission estimates firms' direct compliance costs and the costs of firms updating their contractual practices would total $1.02 to $1.77 billion. The Commission also finds worker training and firm investment in capital assets would likely decrease under the proposed rule. Finally, the Commission finds inconclusive evidence that the job creation rate would diminish under the proposed rule. Given the evidence available, the Commission is unable to monetize the estimates of worker training, firm investment in capital assets, and job creation, however.

1. Direct Compliance Costs

[495] Sebastian Heise, Fatih Karahan, & Ayşegül Şahin *The Missing Inflation Puzzle: The Role of the Wage-Price Pass-Through*, 54 J. Money, Credit & Banking 7 (2022).

In order to comply with the proposed rule, firms must remove non-compete clauses from workers' contracts in two ways. First, to comply with proposed § 910.2(a), which states it is an unfair method of competition to maintain with a worker a non-compete clause, firms would need to no longer include non-compete clauses in the contracts of incoming workers, which may include revising existing employment contracts. Second, to comply with proposed § 910.2(b)(1) and (2), firms would need to rescind existing non-compete clauses no later than the compliance date and provide notice to workers that the worker's non-compete clause is no longer in effect and may not be enforced against the worker.

In order to reduce compliance costs and increase compliance certainty, proposed § 910.2(b)(3) would provide that an employer complies with the rescission requirement in proposed § 910.2(b)(1) where it provides notice to a worker pursuant to § 910.2(b)(2). Furthermore, proposed § 910.2(b)(2)(C) includes model language which may be provided to the worker in order to inform the worker that their non-compete clause is no longer in effect. We estimate composing and sending this message in a digital format to all of a firm's workers and applicable former workers would take 20 minutes of a human resources specialist's time. According to the Bureau of Labor Statistics, the median wage for a human resources specialist was $29.95 per hour in 2021.[496] The cost of compliance for currently employed workers is therefore $29.95/3=$9.98 per firm. According to the U.S. Census Bureau's Statistics of U.S. Businesses database, in 2019 (the most recent year with data available), there were 6.10 million firms and 7.96 million establishments

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[496] *See* Bureau of Lab. Stats., *Occupational Outlook Handbook*, *Human Resources Specialists*, https://www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm.

in the United States.[497] We estimate the percentage of firms using non-compete clauses in the U.S. at 49.4%. This estimate is based on Colvin and Shierholz's 2017 survey of business establishments. Colvin and Shierholz estimate 49% of establishments of more than 50 employees use non-compete clauses for at least some of their employees, and 32% of establishments use non-compete clauses for all of their employees.[498]

Conservatively assuming each establishment must engage in its own communication (*i.e.*, that a firm's headquarters does not have the ability to send a company-wide e-mail, for example), this means the total direct compliance cost for rescinding existing non-compete clauses and providing notice is $9.98*7.96 million*0.494=$39.25 million.

To ensure incoming workers' contracts do not include non-compete clauses and they fully comply with the proposed rule, firms may employ in-house counsel, outside counsel, or human resource specialists (depending on the complexity of the relevant non-compete clause). For many firms, this process would likely be straightforward (*i.e.*, simply not using non-compete clauses or removing one section from a boilerplate contract). For other firms, it may be more difficult and require more time. We assume that, on average, ensuring contracts for incoming workers do not have non-compete clauses would take the equivalent of one hour of a lawyer's time (valued at $61.54),[499] resulting in a total cost of $61.54*7.96 million*0.494=$241.96 million. We acknowledge there may be substantial heterogeneity in the costs for individual firms; however, we

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[497] The dataset is available at U.S. Census Bureau, *2019 SUSB Annual Data Tables by Establishment Industry*, https://www.census.gov/data/tables/2019/econ/susb/2019-susb-annual.html (last visited Dec. 9, 2022).

[498] Alexander J.S. Colvin & Heidi Shierholz, Econ. Pol'y Inst., *Noncompete Agreements* (2019) at 1.

[499] Bureau of Lab. Stats., *Occupational Outlook Handbook*: *Lawyers*, https://www.bls.gov/ooh/legal/lawyers.htm.

believe this number is conservative. For firms whose costs of removing non-compete clauses for incoming workers is greater, the work of ensuring contracts comply with the law would overlap substantially with the costs of updating contractual practices, described in the next section.

2. Costs of Updating Contractual Practices

Firms may seek to update their contractual practices by expanding the scope of non-disclosure agreements (NDAs) or other contractual provisions to ensure they are expansive enough to protect trade secrets and other valuable investments. To do so, firms may use in-house counsel or outside counsel to examine and amend current contracts or enter into new contracts with workers.

The Commission is not aware of empirical evidence on how much it costs firms to update their contractual practices when they can no longer use non-compete clauses. However, there is evidence indicating firms that use non-compete clauses are already using other types of restrictive employment provisions. Firms may be doing so because, among other things, they are uncertain whether a non-compete clause will be enforceable, or because they desire the additional protections NDAs and other types of restrictive employment provisions can offer. Balasubramanian et al. find that 97.5% of workers with non-compete clauses are also subject to a non-solicitation agreement, non-disclosure agreement, or a non-recruitment agreement, and 74.7% of workers with non-compete clauses are also subject to all three other types of provisions.[500] Firms that are already

[500] Balasubramanian, Starr, & Yamaguchi, supra note 40 at 35. We calculate 97.5% as (1-0.6%/24.2%), where 0.6% represents the proportion of workers with only a non-compete clause, and no other post-employment restriction, and 24.2% represents the proportion of workers with a non-compete clause, regardless of what other post-employment restrictions they have.

using multiple layers of protection may not need to expand the scope of existing restrictive employment provisions or enter into new ones.

Among the approximately one half of firms that use non-compete clauses,[501] we assume the average firm employs the equivalent of four to eight hours of a lawyer's time to update their contractual practices. We emphasize this is an average to underline the fact that there would likely be large differences in the extent to which firms update their contractual practices. Many firms, including those which use non-compete clauses only with workers who do not have access to sensitive information, or those which are already using other types of restrictive employment provisions to protect sensitive information, may opt to do nothing. Other firms may employ several hours or multiple days of lawyers' time to arrive at a new contract.[502] Our estimated range of four to eight hours represents an average taken across these different possibilities. For example, if two-thirds of firms that currently use non-compete clauses opt to make no changes to their contractual practices (for example, because they are one of the 97.5% of firms which already implement other post-employment restrictions, or because they will rely on trade secret law in the future, or because they are using non-compete clauses with workers who do not have access to sensitive information), and one-third of such firms spend (on average) the equivalent of 1.5 to 3 days of an attorney's time, this would result in the estimate of 4-8 hours on average reported above.

We further emphasize this estimate is an average across all employers that would be covered by the rule. There is likely substantial heterogeneity in the amount of time

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501 Colvin & Shierholz, *supra* note 498 at 1.

502 These estimates are derived from outreach to employment attorneys active in assisting firms in writing their non-compete clauses.

firms would use to update contractual practices; very large firms that use non-compete clauses extensively would likely incur greater costs.

Under the assumption the average firm that uses a non-compete clause employs the equivalent of four to eight hours of a lawyer's time, we calculate the total expenditure on updating contractual practices to range from $61.54*4*49.4%*6,102,412=$742.07 million to $61.54*8*49.4%*6,102,412=$1.48 billion. Note that we assume decisions regarding protection of sensitive information and contract updating are made at the firm, rather than establishment, level, since sensitive information is likely shared across business establishments of a firm. The Commission seeks comment on this estimate.

3. Firm Investment

Non-compete clauses may impact investments made by firms in multiple ways.[503] First, a firm may anticipate a greater return on investment in a worker with a non-compete clause—since the worker is unable to take the skills they attain to a competitor—and may therefore provide greater levels of training. Second, since non-compete clauses increase worker training, firms may increase investment that complements human capital when they are able to use non-compete clauses. Third, non-compete clauses decrease competition, which increases returns on investment at the firm level, inducing additional investment at the firm level. This increased investment at the firm level does not necessarily mean, however, investment would increase at the market level, since decreased competition may also decrease output, decreasing employed capital stock and investment in that capital stock.

[503] For more discussion, see Jeffers (2019), *supra* note 92; Starr (2019), *supra* note 66 at 783–817.

Once again, the costs described in this section may overlap with estimates reported in preceding sections. For example, if increased enforceability of non-compete clauses increases training of workers, and increased training results in higher wages for workers, then the estimate of the wage decrease when enforceability increases already takes into account the extent to which increased training increases wages. That is, if training were held constant, the earnings increase associated with the proposed rule would likely be even larger.

With respect to worker training, one study finds that an increase in the non-compete clause enforceability index of one standard deviation (across states) results in an increase in the number of workers who reported receiving training of 14.7% for workers in occupations which use non-compete clauses at a high rate, relative to those in which non-compete clauses are used at a low rate.[504] Extending this estimate to the U.S. workforce implies that, on average, 3.1% fewer workers would receive training in a given year, as a result of the proposed rule.[505]

An estimate of the impact of non-compete clause enforceability on firm investment in capital assets implies that an increase in enforceability leads to an increase in firms' net investment to asset ratio of 1.3 percentage points (against a mean of 3.5%). The magnitude of the enforceability increase which is associated with this change is not

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[504] Starr (2019), *supra* note 66 at 796. Estimates are taken from Table 4, Column 4.

[505] The total training decrease is calculated as the weighted average (where weights are equal to employment in 2020, the latest year available, taken from https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm) over all states of:

$(e^{-0.0077*(\text{State's Enforceability Score} - \text{Lowest State Enforceability Score})}-1)$

This calculation assumes that all workers are subject to the decrease in training, as opposed to calculating the decrease to those in high-use occupations versus those in low-use occupations. The benefit of this approach is that it yields a total predicted training decrease for the economy as a whole, rather than a comparison between different types of workers. However, it is likely an overestimate for workers in low-use occupations, and an underestimate for those in high-use occupations. It is the same methodology used to calculate earnings increases in Part VII.B.1.a for the estimate drawn from the same study.

quantified according to the scale above, however, so it is not possible to extend this estimate to the population. Additionally, the estimate is constructed at the firm level, and it is not possible to extrapolate the estimate to the market level, given potential changes in the composition of the market associated with changes in non-compete clause enforceability.

The proposed rule may also impact the extent to which trade secrets are shared with workers. Non-compete clauses are commonly justified as a means by which firms are able to protect trade secrets, which may allow those trade secrets to be shared more freely with workers, positively impacting productivity. However, to the best of our knowledge, there is no available evidence on this topic which would allow us to quantify or monetize the cost, or identify whether it exists in practice.

4. Job Creation Rates

While non-compete clauses may, in theory, incentivize firms to create jobs by increasing the value associated with any given worker covered by a non-compete clause, the evidence is inconclusive. One estimate indicates the job creation rate at startups increased by 7.8% when Michigan increased non-compete clause enforceability.[506] However, the job creation rate calculated in this study is the ratio of jobs created by startups to overall employment in the state: therefore, the job creation rate at startups may rise either because the number of jobs created by startups rose, or because employment overall fell. The study does not investigate which of these two factors drives the increase in the job creation rate at startups.

[506] Carlino, *supra* note 86 at 16.

Another study finds that several increases in non-compete clause enforceability were associated with a 1.4% increase in average employment at new firms.[507] However, the authors attribute the increase in average employment to a change in the composition of newly founded firms. The increases in enforceability prevented the entry of relatively small startups which would otherwise have existed. The remaining firms which entered were therefore larger on average: this increases the average job creation rate at new firms, because the average entering firm is relatively larger. However, in terms of total jobs created, it means that increases in enforceability generate fewer total jobs, if the mechanism identified by the authors is correct. A similar mechanism may explain the results in both studies above. If that is indeed the case, then an increased job creation rate among startups is not a cost of the proposed rule. Instead, it could actually be a benefit (albeit unquantifiable), since non-compete clauses prevent small firms from existing in the first place. The Commission therefore believes that, with respect to job creation rates, the evidence is inconclusive: it is unclear whether the negative results have causes which are actually benign, or even positive.

5. Litigation Costs

The proposed rule would likely reduce litigation costs associated with non-compete clauses, since there would be little to no uncertainty that the vast majority of those clauses are prohibited. However, it is also possible that costs associated with trade secret claims or other post-employment restrictions, such as non-disclosure agreements or non-solicitation agreements, would increase. The Commission is not aware of any evidence indicating the magnitude of the change in litigation costs associated with any of

[507] Starr, Balasubramanian, & Sakakibara, *supra* note 87 at 561.

these claims, and it is therefore not clear whether the net impact on litigation costs would be a benefit or a cost of the proposed rule. The Commission seeks comment on the impact the rule would have on litigation costs.

D. Discussion of Alternatives

In Part VI of this NPRM, the Commission describes several alternatives to the proposed rule. Here, we discuss the extent to which implementation of each of these alternatives would change the analysis of benefits and costs presented above.

We treat Alternatives 1 and 3 first. Under Alternative 1, the rule would categorically ban the use of non-compete clauses for some workers and apply a rebuttable presumption of unlawfulness to non-compete clauses for other workers. For example, the rule could ban non-compete clauses generally, but apply the rebuttable presumption to workers who qualify for the FLSA exemptions for executives or learned professionals.[508] Or the rule could ban non-compete clauses but apply the rebuttable presumption to workers who earn more than $100,000 per year. Under Alternative 3, non-compete clauses for all workers would be subject to a rebuttable presumption of illegality.

There are two primary ways in which a rebuttable presumption of illegality, rather than a prohibition, could affect the benefits and costs associated with the proposed rule. First, a rebuttable presumption may decrease costs associated with the proposed rule by allowing employers to use non-compete clauses in situations in which the true benefits of non-compete clauses exceed the costs. In other words, the non-compete clauses which

[508] *See supra* notes 423–424 and accompanying text.

survive a rebuttable presumption may contribute to economic efficiency to the extent a court is able to identify efficiency-enhancing non-compete clauses.

Second, a rebuttable presumption could increase costs by forcing cases involving non-compete clauses to be litigated more frequently, since the line defining a permissible non-compete clause would be less bright. Additionally, there may be situations in which the presumption would likely hold (*i.e.*, a given non-compete clause is likely prohibited under the presumption), but which are not fought by workers, fearing they might lose the case. In such cases, any costs and benefits associated with non-compete clauses (such as those outlined in the preceding sections) would accrue to the economy.

The two impacts of a change from a prohibition to a rebuttable presumption would likely be more drastic for workers above the threshold (for whom the presumption would be rebuttable under Alternative 1), as compared with those additional workers for whom the presumption would be rebuttable under Alternative 3. For the latter set of workers, there are fewer plausible cases in which the presumption would be rebutted, since higher-paid workers typically have access to greater levels of sensitive information. This means there is a smaller efficiency gain to be had from allowing non-compete clauses which could plausibly rebut the presumption; however, it also means there would likely be fewer litigated cases since there would be fewer marginal non-compete clauses. Therefore, the effect of moving from the proposed rule to Alternative 1 is likely more substantial than the effect of moving from Alternative 1 to Alternative 3.

The effects of Alternatives 2 and 4 may be analyzed similarly. Under Alternative 2, the rule would categorically ban the use of non-compete clauses for some workers and not apply any requirements to other workers. For example, like the recent State of

Washington statute, the rule could prohibit the use of non-compete clauses for employees earning $100,000 or less per year and independent contractors earning less than $250,000 or less per year. Or, like the recent Massachusetts and Rhode Island statutes, the rule could prohibit the use of non-compete clauses for workers who are non-exempt under the FLSA.[509] Under Alternative 4, the rule would apply a rebuttable presumption of unlawfulness to non-compete clauses for some workers and not apply any requirements to other workers. Workers above the threshold are most likely to be those workers for whom firm investment and training are valuable, but they are also often uniquely positioned to found new firms, since they hold knowledge gained by working in their industry. Therefore, a large portion of the benefits associated with the proposed rule would be lost if workers above the threshold were not covered; however, a large portion of the costs would also be lost, since the need to restructure contracts to protect sensitive information would no longer be present for those workers, and firms would continue to train and invest in those workers in the same way they currently do. Additionally, the earnings effects for relatively lower-wage workers appear to be less, based on empirical work, though the legal changes analyzed were not perfectly comparable. This could indicate, again, there are more substantial benefits to be had from prohibiting non-compete clauses for workers above the threshold based on harms to labor markets, compared with workers below the threshold.

The alternative under which the rule would use a different standard for senior executives, discussed in Part VI.C, would yield similar effects to the analyses discussed above. If a rebuttable presumption were applied to senior executives, if there are some

[509] *See supra* Part VI.B.2.

non-compete clauses that are efficient, and if courts are able to appropriately identify efficient non-compete clauses, then some non-compete clauses would likely be used (and may survive challenges) which are indeed efficient. On the other hand, costs associated with legal challenges would likely increase due to an increased frequency of legal challenges associated with a less bright line. If no requirement is applied to senior executives, then a large portion of the benefit of the proposed rule, as it applies to senior executives, would be lost: benefits associated with increased product market competition and benefits associated with increased labor market competition. The costs of restructuring contracts, however, would be lost, as well.

Another alternative, discussed in Part VI.D, concerns whether non-compete clauses between a franchisor and a franchisee would be covered by the proposed rule. As noted in Part VI.D, evidence concerning the impact of prohibiting non-compete clauses between franchisors and franchisees does not exist. The Commission is therefore unable to estimate the extent to which the costs and benefits which would result from the proposed rule covering those parties would be similar to those resulting from prohibiting worker non-compete clauses.

E. Other Major Effects

There are two substantial equity concerns associated with the proposed rule which are not captured above. The first relates to the economic outcomes of women and racial and ethnic minorities. Non-compete clauses may affect women and racial and ethnic minorities more negatively than other workers. For example, firms may use the monopsony power which results from use of non-compete clauses as a means by which to wage discriminate, or women (who may exhibit greater risk aversion, in practice[510]) may be more reluctant to start businesses when non-compete clauses are enforceable. One estimate indicates that gender and racial wage gaps would close by 3.6-9.1% under a nationwide prohibition on non-compete clauses.[511] Another estimate indicates the negative impact of non-compete clause enforceability on within-industry entrepreneurship is 15% greater for women than for men.[512]

The second equity concern related to non-compete clauses is that workers may not be willing to file lawsuits against deep-pocketed employers to challenge their non-compete clauses, even if they predict a high probability of success. The proposed rule would substantially mitigate this concern by enacting a bright-line prohibition, which the Commission could enforce. This would mitigate uncertainty for workers and would be especially helpful for relatively low-paid workers, for whom access to legal services may be prohibitively expensive.

VIII. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA), as amended by the Small Business Regulatory Enforcement Fairness Act of 1996, requires an agency to either provide an Initial Regulatory Flexibility Analysis (IRFA) with a proposed rule or certify that the proposed rule would not have a significant impact on a substantial number of

[510] *See, e.g.*, Catherine C. Eckel & Philip J. Grossman, *Men, Women and Risk Aversion: Experimental Evidence*, *Handbook of Experimental Economics Results* 1 (2008) 1061–073 and Gary Charness & Uri Gneezy, *Strong Evidence For Gender Differences in Risk Taking*, 83 J. Econ. Behavior & Org. 50–58 (2012).
[511] Johnson, Lavetti, & Lipsitz, *supra* note 63 at 38.
[512] Marx (2021), *supra* note 118 at 8.

small entities.[513] The Commission does not expect the proposed rule, if adopted, would have a significant impact on a substantial number of small entities.

Although small entities across all industrial classes—*i.e.*, all North American Industry Classification System (NAICS) codes—would be affected, the estimated impact on each entity would be relatively small. The Small Business Administration (SBA) states that, as a rule of thumb, the impact of a proposed rule could be significant if the cost of the proposed rule (a) eliminates more than 10% of the businesses' profits; (b) exceeds 1% of the gross revenues of the entities in a particular sector, or (c) exceeds 5% of the labor costs of the entities in the sector.[514] As calculated in Part VIII.D, the Commission estimates direct compliance costs and the costs of updating contractual practices would result in costs of $317.68 to $563.84 for single-establishment firms. These costs would only exceed these sample limits if the average profit of regulated entities is $3,177 to $5,638, average revenue is $31,768 to $56,384, or average labor costs are $6,353 to $11,276, respectively. Furthermore, while there are additional nonmonetizable costs associated with the proposed rule, there are also nonmonetizable benefits which would at least partially offset those costs, as explained above in Part VII.

Although the Commission certifies under the RFA that the proposed rule would not have a significant impact on a substantial number of small entities, and hereby provides notice of that certification to the SBA, the Commission has determined it is appropriate to publish an IRFA in order to describe the impact of the

[513] 5 U.S.C. 603–605.

[514] Small Bus. Admin., *A Guide for Government Agencies: How to Comply With the Regulatory Flexibility Act* (August 2017) (hereinafter RFA Compliance Guide) at 19.

proposed rule on small entities. The Commission seeks comment on all aspects of the IRFA in this Part VIII.

A. Reasons for the Proposed Rule

The Commission describes the reasons for the proposed rule above in Part IV.

B. Statement of Objectives and Legal Basis

The Commission describes the objectives and legal basis for the proposed rule above in Part IV and the legal authority for the rule above in Part III.

C. Description and Estimated Number of Small Entities to Which the Rule Would Apply

The proposed rule would impact all small businesses, across all industry classes, that use non-compete clauses. The Commission does not expect there are classes of businesses that would face disproportionate impacts from the proposed rule.

For the vast majority of industries, there is no granular data regarding the percentage of firms that use non-compete clauses (which could then be used to calculate the number of small entities in that industry using non-compete clauses). Due to this data limitation and given the relatively stable percentage of firms using non-compete clauses across the size distribution,[515] we estimate the total number of small firms across all industries in the U.S. economy. We then calculate the number of firms estimated to use non-compete clauses by applying an estimate of the percentage of firms using non-compete clauses to that total. Using the size standards set by the SBA,[516] we calculate

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[515] *See* Colvin & Shierholz, *supra* note 498 at 5. We emphasize that, since smaller firms generally use non-compete clauses at a lower rate, based on the numbers reported in Table 1, our estimate of the number of affected small entities is likely larger than is true in practice.

[516] See Small Bus. Admin., *Table of Size Standards*, https://www.sba.gov/document/support-table-size-standards.

that there are 5.95 million small firms and 6.24 million small establishments in the U.S.[517] Assuming 49.4% of firms or establishments use non-compete clauses,[518] we estimate 2.94 million small firms, comprising 3.08 million small establishments, would be affected by the proposed rule. Since our estimate ignores differential use of non-compete clauses across industries (in the absence of more detailed data), these firms span all industries and various sizes below the standards set in the SBA's size standards.

D. Projected Reporting, Recordkeeping, and Other Compliance Requirements

As calculated in Parts VIII.D.1 and VIII.D.2, the Commission estimates the direct compliance costs and the costs of updating contractual practices would total $246.16 to $492.32 for each small firm, plus an additional $71.52 for each establishment owned by that firm. A single-establishment firm, for example, would bear estimated costs of $317.68 to $563.84, for example.

As described in greater detail in Part VII.C.3, the Commission also finds worker training and firm investment in capital assets would likely decrease under the proposed rule. Finally, as described in greater detail in Part VII.C.4, the Commission finds mixed evidence that the job creation rate would diminish under the proposed rule. Given the evidence available, the Commission is unable to monetize the estimates of worker training, firm investment in capital assets, and job creation, however.

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[517] We use the latest data available from the U.S. Census Bureau's Statistics of U.S. Businesses database, available based on firm revenue and firm size. U.S. Census Bureau, *Statistics of U.S. Businesses (SUSB)*, https://www.census.gov/programs-surveys/susb.html (last visited Dec. 9, 2022). We deflate to current dollars using Historical Table 10.1. Off. of Mgmt. & Budget, *Historical Tables*, https://www.whitehouse.gov/omb/budget/historical-tables/ (last visited Dec. 9, 2022). As used in this analysis, per the U.S. Census Bureau, "a firm is a business organization consisting of one or more domestic establishments in the same geographic area and industry that were specified under common ownership or control." On the other hand, "an establishment is a single physical location at which business is conducted or services or industrial operations are performed." *See* U.S. Census Bureau, *Glossary*, https://www.census.gov/programs-surveys/susb/about/glossary.html.

[518] *See* Colvin & Shierholz, *supra* note 498 at 1.

1. Direct Compliance Costs

In order to comply with the proposed rule, small entities must remove non-compete clauses from workers' contracts in two ways. First, to comply with proposed § 910.2(a), which states it is an unfair method of competition to maintain with a worker a non-compete clause, small entities would need to no longer include non-compete clauses in the contracts of incoming workers, which may include revising existing employment contracts. Second, to comply with proposed § 910.2(b)(1) and (2), small entities would need to rescind existing non-compete clauses no later than the compliance date and provide notice to workers that the worker's non-compete clause is no longer in effect and may not be enforced against the worker.

In order to reduce compliance costs and increase compliance certainty, proposed § 910.2(b)(3) would provide that an employer complies with the rescission requirement in proposed § 910.2(b)(1) where it provides notice to a worker pursuant to § 910.2(b)(2). Furthermore, proposed § 910.2(b)(2)(C) includes model language which may be provided to the worker in order to inform the worker that their non-compete clause is no longer in effect. We estimate composing and sending this message in a digital format to all of a firm's workers and applicable former workers would take 20 minutes of a human resources specialist's time. According to the Bureau of Labor Statistics, the median wage for a human resources specialist was $29.95 per hour in 2021.[519] The cost of compliance for currently employed workers is therefore $29.95/3=$9.98 per firm. As calculated in Part VIII.C, we estimate there are 2.94 million small firms, comprising 3.08 million small

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[519] *See* U.S. Bureau of Lab. Stats., *Occupational Outlook Handbook*, *Human Resources Specialists*, https://www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm.

establishments, in the United States which use non-compete clauses.[520] Conservatively assuming that each establishment must engage in its own communication (*i.e.*, a firm's headquarters does not have the ability to send a company-wide e-mail, for example), this means the total direct compliance cost for workers who are already employed is $9.98*3.08 million=$30.74 million.

To ensure incoming workers' contracts do not include non-compete clauses and they fully comply with the proposed rule, firms may employ in-house counsel, outside counsel, or human resource specialists (depending on the complexity of the relevant non-compete clause). For many firms, this process would likely be straightforward (*i.e.*, simply not using non-compete clauses or removing one section from a boilerplate contract). For other firms, it may be more difficult and require more time. We assume that, on average, ensuring contracts for incoming workers do not have non-compete clauses would take the equivalent of one hour of a lawyer's time (valued at $61.54),[521] resulting in a total cost of $61.54*3.08 million=$189.54 million. We acknowledge there may be substantial heterogeneity in the costs for individual firms; however, we believe this number is conservative. For firms whose costs of removing non-compete clauses for incoming workers is greater, the work of ensuring that contracts comply with the law would overlap substantially with the costs of updating contractual practices, described in the next section.

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[520] The dataset is available at U.S. Census Bureau, *2019 SUSB Annual Data Tables by Establishment Industry*, https://www.census.gov/data/tables/2019/econ/susb/2019-susb-annual.html, (last visited Dec. 9, 2022).

[521] U.S. Bureau of Lab. Stats., *Occupational Outlook Handbook*, *Lawyers*, https://www.bls.gov/ooh/legal/lawyers.htm.

For each establishment of each firm, we estimate direct compliance costs would total $9.98+$61.54=$71.52.

2. Costs of Updating Contractual Practices

Firms may seek to update their contractual practices by expanding the scope of non-disclosure agreements (NDAs) or other contractual provisions to ensure they are expansive enough to protect trade secrets and other valuable investments. To do so, firms may use in-house counsel or outside counsel to examine and amend current contracts or enter into new contracts with workers.

The Commission is not aware of empirical evidence on how much it costs firms to update their contractual practices when they can no longer use non-compete clauses. However, there is evidence indicating firms that use non-compete clauses are already using other types of restrictive employment provisions. Firms may be doing so because, among other things, they are uncertain whether a non-compete clause will be enforceable, or because they desire the additional protections NDAs and other types of restrictive employment provisions can offer. Balasubramanian et al. find that 97.5% of workers with non-compete clauses are also subject to a non-solicitation agreement, non-disclosure agreement, or a non-recruitment agreement, and 74.7% of workers with non-compete clauses are also subject to all three other types of provisions.[522] Firms already using multiple layers of protection may not need to expand the scope of existing restrictive employment provisions or enter into new ones.

[522] Balasubramanian, Starr, & Yamaguchi, supra note 40 at 35. We calculate 97.5% as (1-0.6%/24.2%), where 0.6% represents the proportion of workers with only a non-compete clause, and no other post-employment restriction, and 24.2% represents the proportion of workers with a non-compete clause, regardless of what other post-employment restrictions they have.

Among the approximately one half of firms that use non-compete clauses,[523] we assume the average firm employs the equivalent of four to eight hours of a lawyer's time to update their contractual practices. We emphasize this is an average to underline the likelihood of large differences in the extent to which firms update their contractual practices. Many firms, including those which use non-compete clauses only with workers who do not have access to sensitive information, or those which are already using other types of restrictive employment provisions to protect sensitive information, may opt to do nothing. Other firms may employ several hours or multiple days of lawyers' time to arrive at a new contract.[524] Our estimated range of four to eight hours represents an average taken across these different possibilities. For example, if two-thirds of firms that currently use non-compete clauses opt to make no changes to their contractual practices (for example, because they are one of the 97.5% of firms which already implement other post-employment restrictions, or because they will rely on trade secret law in the future, or because they are using non-compete clauses with workers who do not have access to sensitive information), and one-third of such firms spend (on average) the equivalent of 1.5 to 3 days of an attorney's time, this would result in the estimate of 4-8 hours on average reported above.

We further emphasize this estimate is an average across all employers that would be covered by the rule. There is likely substantial heterogeneity in the amount of time firms would use to update contractual practices; very large firms that use non-compete clauses extensively would likely incur greater costs.

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[523] Colvin & Shierholz, *supra* note 498 at 1.

[524] These estimates are derived from outreach to employment attorneys active in assisting firms in writing their non-compete clauses.

Under the assumption the average firm that uses a non-compete clause employs the equivalent of four to eight hours of a lawyer's time, we calculate the total expenditure on updating contractual practices to range from $61.54*4*2.94 million=$723.7 million to $61.54*8*2.94 million=$1.45 billion. Note that we assume decisions regarding protection of sensitive information and contract updating are made at the firm, rather than establishment, level, since sensitive information is likely shared across business establishments of a firm. The Commission seeks comment on this estimate.

For each firm, we estimate the cost of updating contractual practices would be $61.54*4=$246.16 to $61.54*8=$492.32.

E. Identification of Duplicative, Overlapping, or Conflicting Federal Rules

The Commission is not aware of any duplicative, overlapping, or conflicting federal rules. As described above in Part II.C.1, the enforceability of a non-compete clause currently depends on state law. Non-compete clauses are also subject to federal antitrust law. However, the Commission is not aware of any federal regulations that would duplicate, overlap, or conflict with the proposed rule.

F. Discussion of Significant Alternatives

In Part VI above, the Commission discusses significant alternatives to the proposed rule. Part VI also includes a preliminary assessment of whether each of the significant alternatives would accomplish the objectives of the proposed rule. In addition, the Commission's analysis of benefits and costs in Part VII includes an assessment of the benefits and costs of various alternatives.[525]

[525] *See supra* Part VII.D.

The Commission is not proposing an exemption for small entities or different regulatory requirements for small entities. The proposed rule would provide it is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or, under certain circumstances, to represent to a worker that the worker is subject to a non-compete clause.[526] For the reasons described above in Part IV, the Commission is proposing to provide these practices are an unfair method of competition under Section 5. Based on the available evidence, the Commission does not believe the analysis in Part IV above is fundamentally different for non-compete clauses imposed by small entities. For this reason, the Commission is not proposing an exemption for small entities or different regulatory requirements for small entities. The Commission seeks comment on whether it should propose a small entity exemption or different requirements for small entities, including whether non-compete clauses used by small entities are less likely to have the anticompetitive effects described in Part IV.A above, and whether employers that are small entities are less likely than other employers to have alternatives available for protecting their investments, as described in Part IV.B above.

The Commission is also not proposing a delayed compliance date for small entities. Under proposed § 910.5, compliance with the proposed rule would be required as of the proposed compliance date, which would be 180 days after publication of the final rule in the *Federal Register*.[527] In the Commission's preliminary view, this proposed

[526] *See* proposed § 910.2(a).
[527] *See* proposed § 910.5.

compliance period would afford small entities a sufficient period of time to comply with the proposed rule.[528] The Commission seeks comment on whether this is the case.

IX. Paperwork Reduction Act

Under the Paperwork Reduction Act of 1995 (PRA),[529] federal agencies must obtain approval from the Office of Management and Budget (OMB) for each collection of information they conduct or sponsor. The term "collection of information" includes any requirement or request for persons to obtain, maintain, retain, report, or publicly disclose information.[530] Under the PRA, the Commission may not conduct or sponsor, and, notwithstanding any other provision of law, a person is not required to respond to, an information collection unless the information collection displays a valid control number assigned by OMB.[531]

The Commission believes the proposed rule would contain a disclosure requirement that would constitute a collection of information requiring OMB approval under the PRA. Proposed § 910.2(a) would state it is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or, under certain circumstances, represent to a worker that the worker is subject to a non-compete clause. Proposed § 910.2(b)(1) would state that, to comply with § 910.2(a), an employer that entered into a non-compete clause with a worker prior to the compliance date must rescind the non-compete clause no later than the compliance date.

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[528] *See supra* Part V, in the section-by-section analysis for proposed § 910.5.
[529] 44 U.S.C. 3501 *et seq.*
[530] 44 U.S.C. 3502(3); 5 CFR 1320.3(c).
[531] 44 U.S.C. 3506(c)(1)(B); 5 CFR 1320.5(a)(3).

Proposed § 910.2(b)(2)—the provision that would contain the disclosure requirement that would require OMB approval—would require employers to provide a notice to workers in certain circumstances. Specifically, proposed § 910.2(b)(2)(A) would require an employer that rescinds a non-compete clause pursuant to § 910.2(b)(1) to provide notice to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker. Proposed § 910.2(b)(2)(A) would also state the employer must provide the notice to the worker in an individualized communication and the employer must provide the notice on paper or in a digital format such as, for example, an email or text message. Proposed § 910.2(b)(2)(B) would state the employer must provide the notice to a worker who currently works for the employer. Proposed § 910.2(b)(2)(B) would also state that the employer must also provide the notice to a worker who formerly worked for the employer, provided the employer has the worker's contact information readily available. Finally, proposed § 910.2(b)(2)(C) would provide model language that would satisfy the notice requirement. Proposed § 910.2(b)(2)(C) would also state that an employer may also use different language, provided the notice communicates to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker.

The Commission estimates composing and sending this message in a digital format to all workers would take 20 minutes of a human resources specialist's time. According to the Bureau of Labor Statistics, the median wage for a human resources specialist in 2021 was $29.95 per hour.[532] The cost of compliance for currently employed workers is therefore $29.95 / 3 = $9.98 per firm. According to the U.S. Census Bureau's

[532] U.S. Bureau of Lab. Stats., *Occupational Outlook Handbook: Human Resources Specialists*, https://www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm.

Statistics of U.S. Businesses database, in 2019 (the most recent year for which data are available), there were 6.10 million firms and 7.96 million establishments in the United States.[533] The Commission estimates the percentage of firms using non-compete clauses in the United States at 49.4%.[534] This yields an estimated 3,932,240 covered establishments. Conservatively assuming that each establishment must engage in its own communication—*i.e.*, a firm's headquarters does not have the ability to send a company-wide e-mail, for example—this means covered employers would incur an estimated labor cost burden of 1,310,747 hours to comply with this requirement (3,932,240 establishments × 20 minutes). The Commission estimates the associated labor cost for notifying affected workers who are already employed is $9.98 × 7.96 million × 0.494 = $39,243,755.

The proposed rule would impose only *de minimis* capital and non-labor costs. The Commission anticipates covered employers already have in place existing systems to communicate with and provide employment-related disclosures to workers. While the proposed rule would require a one-time disclosure to some workers subject to a rescinded non-compete clause, the Commission anticipates this one-time disclosure would not require substantial investments in new systems or other non-labor costs. Moreover, many establishments are likely to provide the disclosure electronically, further reducing total costs.

The Commission invites comments on: (1) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency,

[533] U.S. Census Bureau, 2019 SUSB Annual Data Tables by Establishment Industry (February 2022), https://www.census.gov/data/tables/2019/econ/susb/2019-susb-annual.html (last visited Dec. 9, 2022).
[534] *See* Colvin & Shierholz, *supra* note 498 at 4.

including whether the information would have practical utility; (2) the accuracy of the agency's estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used; (3) ways to enhance the quality, utility, and clarity of the information to be collected; and (4) ways to minimize the burden of these information collections on respondents. The Commission seeks comment on all aspects of this Part IX.

Comments on the proposed reporting requirements subject to Paperwork Reduction Act review by OMB should additionally be submitted to *www.reginfo.gov/public/do/PRAMain*. Find this particular information collection by selecting "Currently under 30-day Review—Open for Public Comments" or by using the search function. The reginfo.gov web link is a United States Government website operated by OMB and the General Services Administration (GSA). Under PRA requirements, OMB's Office of Information and Regulatory Affairs (OIRA) reviews federal information collections.

X. Request for Comment

You can file a comment online or on paper. For the Commission to consider your comment, we must receive it on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. Write "Non-Compete Clause Rulemaking, Matter No. P201200" on your comment. Your comment—including your name and your state—will be placed on the public record of this proceeding, including the https://www.regulations.gov website.

Because of the public health emergency in response to the COVID-19 outbreak and the agency's heightened security screening, postal mail addressed to the Commission will be subject to delay. We strongly encourage you to submit your comments online through the https://www.regulations.gov website. To ensure the Commission considers your online comment, please follow the instructions on the web-based form.

If you file your comment on paper, write "Non-Compete Clause Rulemaking, Matter No. P201200" on your comment and on the envelope, and mail your comment to the following address: Federal Trade Commission, Office of the Secretary, 600 Pennsylvania Avenue NW, Suite CC-5610 (Annex C), Washington, DC 20580.

Because your comment will be placed on the publicly accessible website at https://www.regulations.gov, you are solely responsible for making sure your comment does not include any sensitive or confidential information. In particular, your comment should not include any sensitive personal information, such as your or anyone else's Social Security number; date of birth; driver's license number or other state identification number, or foreign country equivalent; passport number; financial account number; or credit or debit card number. You are also solely responsible for making sure your comment does not include any sensitive health information, such as medical records or other individually identifiable health information. In addition, your comment should not include any "trade secret or any commercial or financial information which…is privileged or confidential"—as provided by 15 U.S.C. 46(f) and 16 CFR 4.10(a)(2)—including, in particular, competitively sensitive information such as costs, sales statistics, inventories, formulas, patterns, devices, manufacturing processes, or customer names.

Comments containing material for which confidential treatment is requested must be filed in paper form, must be clearly labeled "Confidential," and must comply with 16 CFR 4.9(c). In particular, the written request for confidential treatment that accompanies the comment must include the factual and legal basis for the request, and must identify the specific portions of the comment to be withheld from the public record. Your comment will be kept confidential only if the General Counsel grants your request in accordance with the law and the public interest. Once your comment has been posted publicly at https://www.regulations.gov—as legally required by 16 CFR 4.9(b)—we cannot redact or remove your comment, unless you submit a confidentiality request that meets the requirements for such treatment under FTC Rule 4.9(c) and the General Counsel grants that request.

Visit the Commission's website, www.ftc.gov, to read this NPRM and the fact sheet describing it. The FTC Act and other laws the Commission administers permit the collection of public comments to consider and use in this proceeding as appropriate. The Commission will consider all timely and responsive public comments that it receives on or before [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]. For information on the Commission's privacy policy, including routine uses permitted by the Privacy Act, see https://www.ftc.gov/site-information/privacy-policy.

XI. Communications by Outside Parties to Commissioners or Their Advisors

Written communications and summaries or transcripts of oral communications respecting the merits of this proceeding, from any outside party to any Commissioner or Commissioner's advisor, will be placed on the public record, per 16 CFR 1.26(b)(5).

List of Subjects in 16 CFR Part 910

Antitrust.

For the reasons set forth above, the Federal Trade Commission proposes to add a new subchapter J, consisting of part 910, to chapter I in title 16 of the Code of Federal Regulations:

1. Add new subchapter J, consisting of part 910, to read as follows:

SUBCHAPTER J—RULES CONCERNING UNFAIR METHODS OF COMPETITION

PART 910—NON-COMPETE CLAUSES

Sec.

Authority: 15 U.S.C. 45 and 46(g).

§ 910.1 Definitions.

(a) *Business entity* means a partnership, corporation, association, limited liability company, or other legal entity, or a division or subsidiary thereof.

(b) *Non-compete clause.*

(1) *Non-compete clause* means a contractual term between an employer and a worker that prevents the worker from seeking or accepting employment with a person, or operating a business, after the conclusion of the worker's employment with the employer.

(2) *Functional test for whether a contractual term is a non-compete clause.* The term non-compete clause includes a contractual term that is a *de facto* non-compete clause because it has the effect of prohibiting the worker from seeking or accepting employment with a person or operating a business after the conclusion of the worker's employment with the employer. For example, the following types of contractual terms, among others, may be *de facto* non-compete clauses:

i. A non-disclosure agreement between an employer and a worker that is written so broadly that it effectively precludes the worker from working in the same field after the conclusion of the worker's employment with the employer.

ii. A contractual term between an employer and a worker that requires the worker to pay the employer or a third-party entity for training costs if the worker's employment terminates within a specified time period, where the required payment is not reasonably related to the costs the employer incurred for training the worker.

(c) *Employer* means a person, as defined in 15 U.S.C. 57b-1(a)(6), that hires or contracts with a worker to work for the person.

(d) *Employment* means work for an employer, as the term employer is defined in paragraph (c) of this section.

(e) *Substantial owner*, *substantial member*, and *substantial partner* mean an owner, member, or partner holding at least a 25 percent ownership interest in a business entity.

(f) *Worker* means a natural person who works, whether paid or unpaid, for an employer. The term includes, without limitation, an employee, individual classified as an independent contractor, extern, intern, volunteer, apprentice, or sole proprietor who provides a service to a client or customer. The term worker does not include a franchisee in the context of a franchisee-franchisor relationship; however, the term worker includes a natural person who works for the franchisee or franchisor. Non-compete clauses between franchisors and franchisees would remain subject to Federal antitrust law as well as all other applicable law.

§ 910.2 Unfair methods of competition.

(a) *Unfair methods of competition.* It is an unfair method of competition for an employer to enter into or attempt to enter into a non-compete clause with a worker; maintain with a worker a non-compete clause; or represent to a worker that the worker is subject to a non-compete clause where the employer has no good faith basis to believe that the worker is subject to an enforceable non-compete clause.

(b) *Existing non-compete clauses.*

(1) *Rescission requirement.* To comply with paragraph (a) of this section, which states that it is an unfair method of competition for an employer to maintain with a worker a non-compete clause, an employer that entered into a non-compete clause with a worker prior to the compliance date must rescind the non-compete clause no later than the compliance date.

(2) *Notice requirement*.

(A) An employer that rescinds a non-compete clause pursuant to paragraph (b)(1) of this section must provide notice to the worker that the worker’s non-compete clause is no longer in effect and may not be enforced against the worker. The employer must provide the notice to the worker in an individualized communication. The employer must provide the notice on paper or in a digital format such as, for example, an email or text message. The employer must provide the notice to the worker within 45 days of rescinding the non-compete clause.

(B) The employer must provide the notice to a worker who currently works for the employer. The employer must also provide the notice to a worker who formerly worked for the employer, provided that the employer has the worker's contact information readily available.

(C) The following model language constitutes notice to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker, for purposes of paragraph (b)(2)(A) of this section. An employer may also use different language, provided that the notice communicates to the worker that the worker's non-compete clause is no longer in effect and may not be enforced against the worker.

> A new rule enforced by the Federal Trade Commission makes it unlawful for us to maintain a non-compete clause in your employment contract. As of [DATE 180 DAYS AFTER DATE OF PUBLICATION OF THE FINAL RULE], the non-compete clause in your contract is no longer in effect. This means that once you stop working for [EMPLOYER NAME]:
>
> - You may seek or accept a job with any company or any person—even if they compete with [EMPLOYER NAME].
> - You may run your own business—even if it competes with [EMPLOYER NAME].
> - You may compete with [EMPLOYER NAME] at any time following your employment with [EMPLOYER NAME].

The FTC's new rule does not affect any other terms of your employment contract.

For more information about the rule, visit [*link to final rule landing page*].

(3) *Safe harbor*. An employer complies with the rescission requirement in paragraph (b)(1) of this section where it provides notice to a worker pursuant to paragraph (b)(2) of this section.

§ 910.3 Exception.

The requirements of this Part 910 shall not apply to a non-compete clause that is entered into by a person who is selling a business entity or otherwise disposing of all of the person's ownership interest in the business entity, or by a person who is selling all or substantially all of a business entity's operating assets, when the person restricted by the non-compete clause is a substantial owner of, or substantial member or substantial partner in, the business entity at the time the person enters into the non-compete clause. Non-compete clauses covered by this exception would remain subject to Federal antitrust law as well as all other applicable law.

§ 910.4 Relation to State laws.

This Part 910 shall supersede any State statute, regulation, order, or interpretation to the extent that such statute, regulation, order, or interpretation is inconsistent with this Part 910. A State statute, regulation, order, or interpretation is not inconsistent with the provisions of this Part 910 if the protection such statute, regulation, order, or interpretation affords any worker is greater than the protection provided under this Part 910.

§ 910.5 Compliance date.

Compliance with this Part 910 is required as of [INSERT DATE 180 DAYS AFTER DATE OF PUBLICATION OF THE FINAL RULE].

By direction of the Commission, Commissioner Wilson dissenting.

April J. Tabor,

Secretary.

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Dissenting Statement of Commissioner Christine S. Wilson
Regarding the Notice of Proposed Rulemaking for the Non-Compete Clause Rule

Commission File No. P201200-1

January 5, 2023

Today, the Commission announced a notice of proposed rulemaking ("NPRM") for a Non-Compete Clause Rule. "The proposed rule would provide that it is an unfair method of competition – and therefore a violation of Section 5 – for an employer to enter into or attempt to enter into a non-compete clause with a worker; [or to] maintain with a worker a non-compete clause . . ."[1] For the many reasons described below, on the current record, I do not support initiating the proposed rulemaking and consequently dissent.

The proposed Non-Compete Clause Rule represents a radical departure from hundreds of years of legal precedent that employs a fact-specific inquiry into whether a non-compete clause is unreasonable in duration and scope, given the business justification for the restriction. The Commission undertakes this radical departure despite what appears at this time to be a lack of clear evidence to support the proposed rule. What little enforcement experience the agency has with employee non-compete provisions is very recent (within the last week) and fails to demonstrate harm to consumers and competition. Lacking enforcement experience, the Commission turns to academic literature – but the current record shows that studies in this area are scant, contain mixed results, and provide insufficient support for the scope of the proposed rule. And one study illustrates clearly, in the financial services sector, the negative unintended consequences of suspending non-compete provisions, including higher fees and broker misconduct. The suspension of non-competes across all industry sectors in the U.S. undoubtedly will impose a much larger raft of unintended consequences.

Setting aside the substance of the rule, the Commission's competition rulemaking authority itself certainly will be challenged. The NPRM is vulnerable to meritorious challenges that (1) the Commission lacks authority to engage in "unfair methods of competition" rulemaking, (2) the major questions doctrine addressed in *West Virginia v. EPA* applies, and the Commission lacks clear Congressional authorization to undertake this initiative; and (3) assuming the agency does possess the authority to engage in this rulemaking, it is an impermissible delegation of legislative authority under the non-delegation doctrine, particularly because the Commission has replaced

[1] Notice of Proposed Rulemaking for Non-Compete Clause Rule ("NPRM") Part I (Jan. 5, 2023).

the consumer welfare standard with one of multiple goals. In short, today's proposed rule will lead to protracted litigation in which the Commission is unlikely to prevail.

The NPRM invites public comment on both a sweeping ban on non-competes and various alternatives pursuant to the Administrative Procedure Act, not the Magnuson-Moss Act. Stakeholders should note that ***this solicitation for public comment is likely the only opportunity they will have to provide input not just on the proposed ban, but also on the proposed alternatives***. For this reason, I encourage all interested parties to respond fully to all parts of the NPRM's solicitation of public comments.

Non-Compete Clauses Merit Fact-Specific Inquiry

Based on the current record, non-compete clauses constitute an inappropriate subject for rulemaking. The competitive effects of a non-compete agreement depend heavily on the context of the agreement, including the business justification that prompted its adoption. But don't take my word for it – the need for fact-specific inquiry aligns with hundreds of years of precedent. When assessing the legality of challenged non-compete agreements, state and federal courts (and English courts before them) have examined the duration and scope of non-compete clauses, as well as the asserted business justifications, to determine whether non-compete clauses are unreasonable and therefore unenforceable.[2]

The NPRM itself acknowledges, at least implicitly, the relevance of the circumstances surrounding adoption of non-compete clauses. For example, the NPRM proposes an exception to the ban on non-compete clauses for provisions associated with the sale of a business, acknowledging that these non-compete clauses help protect the value of the business acquired by the buyer.[3] Recognizing that senior executives typically negotiate many facets of their employment agreements, the NPRM distinguishes situations in which senior executives are subject to non-compete provisions.[4] And to stave off potential legal challenges, the NPRM proposes more carefully tailored alternatives to a sweeping ban on non-compete clauses that instead would vary by employee category.

[2] *See, e.g.*, United States v. Addyston Pipe & Steel Co., 85 F. 271, 281 (6th Cir. 1898) (Taft, J.), *aff'd in relevant part*, 175 U.S. 211 (1899); Mitchel v. Reynolds, 1 P. Wms. 181 (1711).

[3] NPRM Part V, Section 910.3.

[4] Accordingly, the Commission seeks comments on whether senior executives should be treated differently from the proposed ban on non-compete clauses. *See* NPRM Parts IV.A.1.b, IV.A.1.c. In a similar vein, recent consent agreements issued for public comment that prohibit the use of non-compete agreements in the glass container industry do not prohibit non-compete clauses for senior executives and employees involved in research and development. *See* O-I Glass, Inc., File No. 211-0182, https://www.ftc.gov/system/files/ftc_gov/pdf/2110182o-iglassdraftorderappxa.pdf (Jan. 4, 2023) (Decision and Order Appendix A); Ardagh Glass Group S.A., File No. 211-0182, https://www.ftc.gov/system/files/ftc_gov/pdf/2110182ardaghdraftorderappxa.pdf (Jan. 4, 2023) (Decision and Order Appendix A); Christine S. Wilson, Comm'r, Fed. Trade Comm'n, Dissenting Statement regarding In the Matter of O-I Glass, Inc. and In the Matter of Ardagh Group S.A. (Jan. 4, 2023), https://www.ftc.gov/legal-library/browse/cases-proceedings/public-statements/dissenting-statement-commissioner-christine-s-wilson-regarding-matters-o-i-glass-inc-ardagh-group-sa.

Despite the importance of context and the need for fact-specific inquiries, the Commission instead applies the approach of the newly issued Section 5 Policy Statement[5] to propose a near-complete ban on the use of non-compete clauses. Pursuant to this approach, the Commission invokes nefarious-sounding adjectives – here, "exploitive and coercive" – and replaces the evaluation of actual or likely competitive effects with an unsubstantiated conclusion about the "tendency" for the conduct to generate negative consequences by "affecting consumers, workers or other market participants."[6]

Using the approach of the Section 5 Policy Statement that enables the majority summarily to condemn conduct it finds distasteful, the Commission today proposes a rule that prohibits conduct that 47 state legislators have chosen to allow.[7] Similarly, the Commission's proposed rule bans conduct that courts have found to be legal,[8] a concern the Commission dismisses with a claim that the Section 5 prohibition on "unfair methods of competition" extends beyond the antitrust laws. But the majority's conclusions and today's proposed rule forbid conduct previously found lawful under Section 5 of the FTC Act. Specifically, applying FTC Act Section 5, the Seventh Circuit found that "[r]estrictive [non-compete] clauses . . . are legal unless they are unreasonable as to time or geographic scope[.]"[9] In other words, the Seventh Circuit found that a fact-specific inquiry is required under Section 5.

The NPRM announced today conflicts not only with the Seventh Circuit's holding, but also with several hundred years of precedent. With all due respect to the majority, I am dubious that three unelected technocrats[10] have somehow hit upon the right way to think about non-competes, and that all the preceding legal minds to examine this issue have gotten it wrong. The current rulemaking record does not convince me otherwise.

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[5] Fed. Trade Comm'n, Policy Statement Regarding the Scope of Unfair Methods of Competition Under Section 5 of the Federal Trade Commission Act (Nov. 10, 2022), https://www.ftc.gov/system/files/ftc_gov/pdf/p221202sec5enforcementpolicystatement_002.pdf.

[6] *Id.* at 9.

[7] NPRM Part II.C.1. Further, the NPRM explains "[s]tates have been particularly active in restricting non-compete clauses in recent years." *Id.* The Commission's rulemaking will end states' varying approaches to address non-compete agreements. The Commission's preemption of states' approaches is premature to the extent that the Commission admits that it does not know where to draw lines regarding the treatment of non-compete provisions (i.e., the Commission seeks comments on alternatives to the proposed ban based on earnings levels, job classifications, or presumptions). The Commission ignores the advice of Justice Brandeis and instead proposes to end states' experimentation to determine the optimal treatment of non-compete clauses. *See* New State Ice Co. v. Liebmann, 285 U.S. 262, 311 (1932) ("To stay experimentation in things social and economic is a grave responsibility. Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.").

[8] *See* United States v. Empire Gas Corp., 537 F.2d 296, 307-08 (8th Cir. 1976); Lektro-Vend Corp. v. Vendo Co., 660 F.2d 255, 267 (7th Cir. 1981); Newburger, Loeb & Co., Inc. v. Gross, 563 F.2d 1057, 1081-83 (2d Cir. 1977); Bradford v. New York Times Co., 501 F.2d 51, 57-59 (2d Cir. 1974).

[9] Snap-On Tools Corp. v. Fed. Trade Comm'n, 321 F.2d 825, 837 (7th Cir. 1963).

[10] This characterization is not an insult, but a fact. I, too, am an unelected technocrat.

I. Non-Compete Agreements – the First Application of the Section 5 Policy Statement

The proposed Non-Compete Clause Rule "would provide that it is an unfair method of competition – and therefore a violation of Section 5 – for an employer to enter into or attempt to enter into a non-compete clause with a worker; [or] to maintain with a worker a non-compete clause . . ."[11] The proposed ban on non-compete clauses is based only on alleged violations of Section 5 of the FTC Act; it is not premised on the illegality of non-compete clauses under the Sherman or Clayton Acts.

When the Commission issued the Policy Statement Regarding the Scope of Unfair Methods of Competition Under Section 5 of the Federal Trade Commission Act ("Policy Statement") in November 2022, I warned that the approach described by the Policy Statement would enable the Commission majority to condemn conduct it disfavors, even when that conduct repeatedly has been found lawful.[12] I predicted that the approach to Section 5 enforcement contained in the Policy Statement would facilitate expansive enforcement, often without requiring evidence of anticompetitive effects. And I cautioned that subjects of investigations would not be able to defend their conduct because procompetitive justifications would not be credited. The Non-Compete Clause Rule NPRM provides a graphic illustration of these concerns.

A. The NPRM's Determination that Non-Compete Clauses are Unfair

The NPRM states that there are 3 *independent* ways for classifying non-compete clauses as an "unfair" method of competition.[13] In November, I objected to the enforcement approach described in the Section 5 Policy Statement – specifically, permitting the Commission majority to condemn conduct merely by selecting and assigning to disfavored conduct one or more adjectives from a nefarious-sounding list.[14] Here, two of the three explanations the Commission provides for concluding that non-compete clauses are unfair rely on invocation of the adjectives "exploitive and coercive."[15] The third explanation for the illegality of non-compete clauses demonstrates how little evidence the majority requires to conclude that conduct causes harm.

According to the NPRM, "non-compete clauses are exploitive and coercive at the time of contracting."[16] The NPRM explains that the "clauses for workers other than senior executives

[11] NPRM Part I.

[12] *See* Christine S. Wilson, Comm'r, Fed. Trade Comm'n, Dissenting Statement Regarding the "Policy Statement Regarding the Scope of Unfair Methods of Competition Under Section 5 of the Federal Trade Commission Act" (Nov. 10, 2022), https://www.ftc.gov/system/files/ftc_gov/pdf/P221202Section5PolicyWilsonDissentStmt.pdf.

[13] NPRM Part IV.A.1.

[14] *See* Wilson, *supra* note 12.

[15] The Policy Statement claimed that determinations of unfairness would be based on a sliding scale. Here, the NPRM identifies independent ways to determine that non-compete clauses are unfair; no sliding scale is applied.

[16] NPRM Part IV.A.1.b The NPRM explains that this conclusion does not apply to senior executives and also seeks comment on whether there is a broader category of highly paid or highly skilled employees for whom the conclusion is inappropriate. *Id.*

are exploitive and coercive because they take advantage of unequal bargaining power[.]”[17] The business community will be surprised to learn that “unequal bargaining power” can lead to a conclusion that any negotiated outcome may be condemned as “exploitive and coercive,” which then can be parlayed into a finding that the conduct violates Section 5. Indeed, this assertion is particularly troubling not merely because it presages an approach that is literally limitless, but also because the imbalance of bargaining power, as in this setting, arises wholly apart from any conduct by the business.[18] The reader may note that the NPRM cites legal decisions to support the assignment of adjectives. Yet, a careful reading of the courts' discussions of the imbalance of bargaining power between employers and employees reveals that while the imbalance may provide a reason to scrutinize non-compete clauses, it is not used to condemn or invalidate them.[19] Remarkably, in each case cited in footnote 253 of the NPRM, the court found the non-compete clauses to be enforceable.

Next, the NPRM finds that “non-compete clauses are exploitive and coercive at the time of the worker's potential departure from the employer[.]”[20] The NPRM reaches this conclusion regardless of whether the clauses are enforced. This conclusion is contrary to legal precedent, which requires enforcement of non-compete provisions before finding harm.[21]

Finally, the NPRM finds that “non-compete clauses are restrictive conduct that negatively affects competitive conditions.”[22] Although this basis for concluding that non-compete provisions are unfair does not rely solely on the selection of an adjective, here, the NPRM demonstrates how little evidence the majority requires before finding that conduct is unfair pursuant to the Section 5 Policy Statement.

Until yesterday, the Commission had announced no cases (and therefore had no experience and no evidence) to conclude that non-compete clauses harm competition in labor markets. In fact, the only litigated FTC case challenging a non-compete clause found that a non-compete

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[17] *Id*.

[18] According to the NPRM, unequal bargaining power arises because employees depend on job income to pay bills, job searches entail significant transaction costs, the prevalence of unions has declined, employers outsource firm functions, employers have more experience negotiating because they have multiple employees, employees typically do not hire lawyers to negotiate agreements, and employees may not focus on the terms of their contracts. *Id.*

[19] *See* Alexander & Alexander, Inc. v. Danahy, 488 N.E.2d 22, 29 (Mass. App. Ct. 1986) (finding injunction to enforce non-compete agreement proper); Diepholz v. Rutledge, 659 N.E. 989, 991 (Ill. Ct. App. 1995) (finding non-compete agreement enforceable, but also finding no violation of terms of non-compete agreement); Palmetto Mortuary Transp., Inc. v. Knight Sys., Inc., 818 S.E.2d 724, 731 (S.C. 2018) (finding non-compete agreement enforceable).

[20] NPRM Part IV.A.1.c. Again, the NPRM explains that this conclusion does not apply to senior executives and also invites comments on whether there is a broader category of highly paid or highly skilled employees for whom the conclusion is inappropriate. *Id.*

[21] *See, e.g.*, O'Regan v. Arbitration Forums, Inc., 121 F.3d 1060, 1065-66 (7th Cir. 1997) (“to apply antitrust laws to restrictive employment covenants, there must be some attempted enforcement of an arguably overbroad portion of the covenant in order for there to be a federal antitrust violation.”); Lektro–Vend Corp. v. Vendo Co., 660 F.2d 255, 267 (7th Cir.1981) (“a section 1 violation requires proof that the defendant knowingly enforced the arguably overbroad section of the ancillary noncompetition covenant”).

[22] NPRM Part IV.A.1.a.

provision covering franchise dealers did *not* violate Section 5 of the FTC Act.[23] Notably, the NPRM omits any reference to this case. The Commission has accepted settlements regarding non-compete clauses in contracts between businesses,[24] but the majority itself has distinguished those cases from non-compete clauses in labor contracts.[25] And in those B2B cases, the non-compete clauses were associated with the sale of a business, a situation that falls within the narrow exception to the ban provided in the proposed Non-Compete Clause Rule.

Just yesterday, though, the Commission rushed out the announcement of three consent agreements that resolve allegations that non-compete provisions constitute an unfair method of competition.[26] The first consent involves security guard services, and the other two involve the manufacturing of glass containers. These consents undoubtedly were designed to support assertions that the FTC now has experience with non-compete agreements in employee contracts. But even a cursory read of the complaints reveals the diaphanous nature of this "experience."

Remarkably, none of these cases provides evidence showing the anticompetitive effects of non-compete clauses beyond the conclusory allegations in the complaints. The complaints in the glass container industry assert that non-compete provisions may prevent entry or expansion by competitors, but contain no allegations regarding firms that have tried unsuccessfully to obtain personnel with industry-specific skills and experience.[27] Regarding the effects on employees, the complaints make no allegations that the non-compete clauses were enforced by respondents[28] and the Analysis to Aid Public Comment accompanying the consent agreements points only to studies not tied to the glass container industry. These cases provide no evidence that the non-compete provisions limited competition for employees with industry-specific expertise, thereby lowering wages or impacting job quality. Similarly, in the case against Prudential Security,

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[23] *See* Snap-On Tools Corp. v. Fed. Trade Comm'n, 321 F.2d at 837.

[24] *See* ARKO Corp., FTC File No. 211-0187, https://www.ftc.gov/system/files/ftc_gov/pdf/2110087C4773ArkoExpressComplaint.pdf (Aug. 5, 2022); DTE Energy Co., FTC File No. 191-0068, https://www.ftc.gov/system/files/documents/cases/191_0068_c-4691_dte-enbridge_complaint.pdf. (Dec. 13, 2019).

[25] *See* Lina M. Khan, Chair, Fed. Trade Comm'n, Joined by Rebecca Kelly Slaughter and Alvaro M. Bedoya, Comm'rs, Fed. Trade Comm'n, Statement regarding In the Matter of ARKO Corp./Express Stop, https://www.ftc.gov/system/files/ftc_gov/pdf/2110187GPMExpressKhanStatement.pdf (June 10, 2022) (distinguishing non-compete clauses in labor contracts and effects on workers from non-compete clause in merger agreement where both parties remain in market).

[26] On December 28, 2022, the Commission voted to accept for public comment three consent agreements involving non-compete agreements. For two of those matters, the Commission vote occurred less than a week after the Commission received the papers. *See* Ardagh Glass Group S.A., File No. 211-0182, https://www.ftc.gov/system/files/ftc_gov/pdf/2110182ardaghacco.pdf (Jan. 4, 2023) (Agreement Containing Consent Order (signatures dated Dec. 21, 2022)).

[27] *See* O-I Glass, Inc., File No. 211-0182, https://www.ftc.gov/system/files/ftc_gov/pdf/2110182o-iglasscomplaint.pdf (Jan. 4, 2023) (complaint ¶¶ 6, 8); Ardagh Glass Group S.A., File No. 211-0182, https://www.ftc.gov/system/files/ftc_gov/pdf/2110182ardaghcomplaint.pdf (Jan. 4, 2023) (complaint ¶¶ 6, 8).

[28] *See* Wilson, Dissenting Statement regarding In the Matter of O-I Glass, Inc. and In the Matter of Ardagh Glass Group S.A., *supra* note 4.

Inc.,[29] the complaint alleges that individual former employees were limited in their ability to work for other firms in the security guard industry,[30] but contain no allegations that the firm's non-compete provisions had market effects on wages or effects in a properly defined market for security guard services.

The NPRM also asserts FTC experience with non-compete provisions by pointing to Commission merger consent agreements that restrict the use of non-compete agreements. The complaints in those cases did not allege harm from non-compete clauses and the provisions in the consent agreements were included to ensure that the buyers of divestiture assets could obtain employees familiar with the assets and necessary for the success of the divestitures at issue.

Finally, the NPRM claims Commission experience with non-compete agreements to support the Non-Compete Clause Rule from a Commission workshop in January 2020.[31] But the NPRM fails to reflect the variety of views expressed during that workshop, including testimony that the economic literature is "[s]till far from reaching a scientific standard for concluding [that non-compete agreements] are bad for overall welfare . . . Also [we] don't yet fully understand the distribution of effects on workers . . . Welfare tradeoffs are likely context-specific, and may be heterogeneous."[32]

Indeed, the NPRM ignores that testimony and instead focuses on economic literature that purportedly demonstrates that non-compete clauses are unfair because they negatively affect competitive conditions. But an objective review of that literature reveals a mixed bag. For example, the first study described in the NPRM[33] finds that "decreasing non-compete clause enforceability from the approximate enforceability level of the fifth-strictest state to that of the fifth-most-lax state would increase workers' earnings by 3-4%." Yet, this study also finds that these effects vary strongly across different groups of individuals. For example, the authors find that "enforceability has little to no effect on earnings for non-college educated workers" and instead find that enforceability primarily impacts college-educated workers. Similarly, it finds that strict non-compete clause enforceability has very different effects for different demographic groups: it has little to no effect on men, and much larger effects on women and Black men and women. The NPRM interprets these differential effects as facts in favor of the Non-Compete Clause Rule, as it would diminish race and gender wage gaps, but there is no corresponding discussion of the Rule's effect on the wage gap based on education. An alternative interpretation

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[29] Prudential Security, Inc., File No. 221-0026, https://www.ftc.gov/system/files/ftc_gov/pdf/2210026prudentialsecuritycomplaint.pdf (Dec. 28, 2022) (consent agreement accepted for public comment).

[30] *Id.* (complaint at ¶¶ 23, 25).

[31] Fed. Trade Comm'n, *Non-Competes in the Workplace: Examining Antitrust and Consumer Protection Issues*, https://www.ftc.gov/news-events/events/2020/01/non-compete clauses-workplace-examining-antitrust-consumer-protection-issues.

[32] Kurt Lavetti, *Economic Welfare Aspects of Non-Compete Agreements*, Remarks at the Fed. Trade Comm'n Workshop on Non-Compete Clauses in the Workplace (Jan. 9, 2020), https://www.ftc.gov/system/files/documents/public_events/1556256/non-compete=workshop-slides.pdf.

[33] Matthew S. Johnson, Kurt Lavetti, & Michael Lipsitz, *The Labor Market Effects of Legal Restrictions on Worker Mobility* 2, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3455381 (2020).

of these findings is that the scientific literature is still muddled as to who is helped and who is harmed by non-compete clauses, and that it would be better for the Commission to tailor a rule to those settings where a scientific consensus exists.

Similarly, the NPRM often bases its conclusions about the effects of non-compete clauses on limited support. For example, the NPRM contends that increased enforceability of non-compete clauses increases consumer prices. Yet, under the current record, this conclusion is based on only one study in healthcare markets and another study that considers the relationship between non-compete clauses and concentration.[34] The NPRM does not provide a basis to conclude that findings with respect to the market for physicians and healthcare are generalizable, instead acknowledging that no comparable evidence exists for other markets.[35] Also, the study that considers the effects of non-compete clauses on concentration does not draw conclusions about prices; the NPRM's conclusion that non-compete provisions lead to higher prices requires assumptions about a relationship between concentration and prices. Moreover, the NPRM omits studies showing that reducing the enforceability of non-compete restrictions leads to higher prices for consumers. A study by Gurun, Stoffman, and Yonker finds that an agreement not to enforce post-employment restrictions among financial advisory firms that were members of the Broker Protocol led brokers to depart their firms, and consumers to follow their brokers, at high rates. The study found, however, that clients of firms in the Broker Protocol paid higher fees and experienced higher levels of broker misconduct.[36] In other words, suspending non-competes resulted in higher prices and a decrease in the quality of service provided. These unintended consequences illustrate the inevitably far-reaching and unintended consequences that today's NPRM will visit upon employees, employers, competition, and the economy.

B. The NPRM's Treatment of Business Justifications

The NPRM explains that "the additional incentive to invest (in assets like physical capital, human capital, or customer attraction, or in the sharing of trade secrets and confidential commercial information) is the primary justification for use of non-compete clauses."[37] It acknowledges that "there is evidence that non-compete clauses increase employee training and other forms of investment,"[38] and describes two studies demonstrating that increased non-compete clause enforceability increased firm-provided training and investment.[39] It also

[34] NPRM Part II.B.2.a.

[35] NPRM Part VII.B.2.c.

[36] Umit G. Gurun, Noah Stoffman, & Scott E. Yonker, *Unlocking Clients: The Importance of Relationships in the Financial Advisory Industry*, 141 J. Fin. Econ. 1218 (2021)

[37] NPRM Part II.B.2.e.

[38] *Id*.

[39] Evan Starr, *Consider This: Training, Wages, and the Enforceability of Non-Compete Clauses*, 72 I.L.R. Rev. 783, 799 (2019) (moving from mean non-compete enforceability to no non-compete clause enforceability would decrease the number of workers receiving training by 14.7% in occupations that use non-compete clauses at a high rate); Jessica Jeffers, *The Impact of Restricting Labor Mobility on Corporate Investment and Entrepreneurship* 22 (2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3040393 (knowledge-intensive firms invest 32% less in capital equipment following decreases in the enforceability of non-compete clauses).

describes studies that examine non-compete clause use and investment.[40] Despite the studies, the NPRM concludes, "the evidence that non-compete clauses benefit workers or consumers is scant."[41] In other words, the NPRM treats asymmetrically the evidence of harms (mixed evidence given great credence) and benefits (robust evidence given no credence). These early examples of cherry-picking evidence that conforms to the narrative provide little confidence in the integrity of the rulemaking process or the ultimate outcome.

Implicitly, though, the NPRM credits some business justifications for non-compete provisions. It excludes from the ban those non-compete clauses associated with the sale of a business, implicitly acknowledging that these non-compete clauses are necessary to protect the goodwill of the transferred business. Also, the NPRM likely credits business justifications when it seeks comment on whether senior executives should be covered by the rule. Nonetheless, on its face, the NPRM expressly discounts business justifications and makes no effort to distinguish and determine circumstances where investment incentives are important.

The NPRM also discounts procompetitive business justifications by asserting that trade secret law, non-disclosure agreements, and other mechanisms can be used to protect firm investments. While the NPRM explains that these mechanisms may protect investments, the existing record provides no evidence that these mechanisms are effective substitutes for non-compete agreements.[42] The NPRM cites no instances where these mechanisms have been used effectively in lieu of non-compete clauses, even though natural experiments exist and could be studied (*e.g.*, when states have changed the enforceability of non-compete clauses). "[M]erely identifying alternative mechanisms to solve a potential employee investment problem does not provide . . . guidance as to which mechanism achieves the objective at the lowest social cost."[43] Moreover, the NPRM's observation that firms successfully operate in states where non-compete clauses are not enforceable is unpersuasive; the NPRM offers no meaningful cross-state comparisons and the observation does not show that firms and competition are equally or even more successful in those states than in states where non-compete clauses are permissible.

II. The Proposed Non-Compete Clause Rule Will Trigger Numerous And Likely Successful Legal Challenges Regarding the Commission's Authority to Issue the Rule

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[40] Matthew S. Johnson & Michael Lipsitz, *Why Are Low-Wage Workers Signing Noncompete Agreements?*, 57 J. Hum. Res. 689, 700 (2022) (finding firms that use non-compete clauses in hair salon industry train employees at 11% higher rate and increase investment in particular customer-attraction device by 11%); Evan P. Starr, James J. Prescott, & Norman D. Bishara, *Noncompete Agreements in the U.S. Labor Force*, 64 J. L. & Econ. 53, 53 (2021) (finding no statistically significant impact on training and trade secrets from use of non-compete clauses, but unable to examine other types of investments).

[41] NPRM Part IV.B.3.

[42] There is a limited literature regarding the efficacy of trade secret protection and non-disclosure agreements. *See* Jie Gong & I.P.L. Png, *Trade Secrets Law and Inventory Efficiency: Empirical Evidence from U.S. Manufacturing*, https://ssrn.com/abstract=2102304 (July 8, 2012) (investigating effects of operational know-how information spillovers under various levels of enforcement of trade secret law).

[43] Camila Ringeling, Joshua D. Wright, et. al, Noncompete Clauses Used in Employment Contracts, Comment of the Global Antitrust Institute 6 (Feb. 7, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3534374.

This section describes the numerous, and meritorious, legal challenges that undoubtedly will be launched against the Non-Compete Clause Rule. Defending these challenges will entail lengthy litigation that will consume substantial staff resources. I anticipate that the Rule will not withstand these challenges, so the Commission majority essentially is directing staff to embark on a demanding and futile effort. In the face of finite and scarce resources, this NPRM is hardly the best use of FTC bandwidth.

There are numerous paths for opponents to challenge the Commission's authority to promulgate the Non-Compete Clause Rule. First, I question whether the FTC Act provides authority for competition rulemaking. The NPRM states that the Commission proposes the Non-Compete Clause Rule pursuant to Sections 5 and 6(g) of the FTC Act. Section 6(g) of the FTC Act authorizes the Commission to "make rules and regulations for the purpose of carrying out the provisions of the subchapter" where Section 6(g) otherwise provides that the Commission may "from time to time classify corporations."[44] Section 6(g) was believed to provide authority only for the Commission to adopt the Commission's procedural rules. For decades, consistent with the statements in the FTC Act's legislative history, Commission leadership testified before Congress that the Commission lacked substantive competition rulemaking authority.[45]

[44] 15 U.S.C. § 46(g.). Section 6 of the FTC Act provides

> **§46. Additional powers of Commission**
>
> The Commission shall also have power . . .
>
> **(g) Classification of corporations; regulations**
>
> From time to time classify corporations and (except as provided in section 57a(a)(2) of this title) to make rules and regulations for the purpose of carrying out the provisions of this subchapter.

[45] *See* Nat'l Petroleum Ref'rs Ass'n v. FTC, 482 F.2d 672, 696 nn. 38, 39 (D.C. Cir. 1973). *See also* Noah Joshua Phillips, *Against Antitrust Regulation*, American Enterprise Institute Report 3, https://www.aei.org/research-products/report/against-antitrust-regulation/ (Oct. 13, 2022) ("[T]he Conference Committee [considering legislation that created the Federal Trade Commission] was between two bills, neither of which contemplated substantive rulemaking. . . . The legislative history does not demonstrate congressional intent to give the FTC substantive rulemaking power: The House considered and rejected it, the Senate never proposed it, and neither the Conference Committee's report nor the final debates mentioned it."); 51 Cong. Rec. 12916 (1914), reprinted in THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 4368 (Earl W. Kintner ed., 1982) statement of Sen. Cummins) ("[I]f we were to attempt to go further in this act and to give the commission the authority to prescribe a code of rules governing the conduct of the business men of this country for the future, we would clash with the principle that we can not confer upon the commission in that respect legislative authority; but we have not made any such attempt as that, and no one proposes any attempt of that sort."); *id.* at 14932, reprinted in THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 4732 (Earl W. Kintner ed., 1982) (statement of Rep. Covington) ("The Federal trade commission will have no power to prescribe the methods of competition to be used in the future. In issuing orders it will not be exercising power of a legislative nature . . . The function of the Federal trade commission will be to determine whether an existing method of competition is unfair, and, it is finds it to be unfair, to order the discontinuance of its use. In doing this it will exercise power of a judicial nature."); *id.* at 13317, reprinted in THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 4675 (Earl W. Kintner ed., 1982) (statement of Sen Walsh) ("We are not going to give to the trade commission the general power to regulate and prescribe rules under which the business of this country shall in the future be conducted; we propose simply to give it the power to denounce as unlawful a particular practice that is pursued by that business.").

Ignoring this history, the Commission embarked on a substantive rulemaking binge in the 1960s and 1970s.[46] The vast majority of these substantive rules pertained to consumer protection issues. Only one substantive rule was grounded solely in competition;[47] that rule was not enforced and subsequently was withdrawn.[48] Another substantive rule was grounded in both competition and consumer protection principles, and prompted a federal court challenge. There, the D.C. Circuit in 1973 held in *National Petroleum Refiners*[49] that the FTC did have the power to promulgate substantive rules.

Two years later, however, Congress enacted the Magnuson-Moss Act,[50] which required substantive consumer protection rules to be promulgated with heightened procedural safeguards under a new Section 18 of the FTC Act. Notably, the Magnuson-Moss Act expressly excluded rulemaking for unfair methods of competition from Section 18. FTC Chairman Miles Kirkpatrick (1970-73) explained that it was not clear whether Congress in the Magnuson-Moss Act sought to clarify existing rulemaking authority or to grant substantive rulemaking authority to the FTC for the first time.[51] If the latter, then the FTC only has substantive *consumer protection* rulemaking power, and lacks the authority to engage in substantive *competition* rulemaking. This uncertainty about the language of the statute will be a starting point for challenges of the Non-Compete Clause Rule.

Second, the Commission's authority for the Rule likely will be challenged under the major questions doctrine, which the Supreme Court recently applied in *West Virginia v. EPA*.[52] Under the major questions doctrine, "where a statute . . . confers authority upon an administrative agency," a court asks "whether Congress in fact meant to confer the power the agency has asserted."[53] The Supreme Court explained in *West Virginia v. EPA* that an agency's exercise of statutory authority involved a major question where the "history and the breadth of the authority that the agency has asserted, and the economic and political significance of that assertion, provide a reason to hesitate before concluding that Congress meant to confer such authority."[54]

Challengers will ask a court to determine whether today's NPRM constitutes a major question. Using Justice Gorsuch's concurrence as a guide, agency action will trigger the application of the major questions doctrine if the agency claims, among other things, the power to (1) resolve a

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[46] *See* TIMOTHY J. MURIS & HOWARD BEALES, III, THE LIMITS OF UNFAIRNESS UNDER THE FEDERAL TRADE COMMISSION ACT 13 (1991).

[47] FTC Men's and Boy's Tailored Clothing Rule, 16 C.F.R. § 412 (1968).

[48] Notice of Rule Repeal, 59 Fed. Reg. 8527 (1994).

[49] Nat'l Petroleum Ref'rs Ass'n v. FTC, 482 F.2d 672 (D.C. Cir. 1973).

[50] Magnuson-Moss Warranty – Federal Trade Commission Improvement Act, Pub. L. No. 93-637, 88 Stat. 2183 (1975).

[51] *See* Miles W. Kirkpatrick, *FTC Rulemaking in Historical Perspective* 48 Antitrust L.J. 1561, 1561 (1979) ("One of the most important aspects of the Magnuson-Moss Act was its granting, or confirmation, depending upon your reading of the law at that time, of the FTC's rulemaking powers.").

[52] West Virginia v. EPA, 142 S. Ct. 2587 (2022).

[53] *Id.* at 2608.

[54] *Id.*

matter of great political significance, (2) regulate a significant portion of the American economy, or (3) intrude in an area that is the particular domain of state law.[55] First, the regulation of non-compete clauses is a question of political significance; Congress has considered and rejected bills significantly limiting or banning non-competes on numerous occasions,[56] a strong indication that the Commission is trying to "work around" the legislative process to resolve a question of political significance.[57] Second, the Rule proposes to regulate a significant portion of the American economy through a ban on non-competes. According to the NPRM, the "Commission estimates that approximately one in five American workers – or approximately 30 million workers – is bound by a non-compete clause.[58] Thus, the Non-Compete Clause Rule indisputably will negate millions of private contractual agreements and impact employer/employee relationships in a wide variety of industries across the United States. Third, regulation of non-compete agreements has been the particular domain of state law. As the NPRM explains, 47 states permit non-competes in some capacity, while three states have chosen to prohibit them entirely, and state legislatures have been active in this area recently.[59]

If a court were to conclude that the Non-Compete Clause Rule is a major question, the FTC would be required to identify clear Congressional authorization to impose a regulation banning non-compete clauses. Yet, as discussed above, that clear authorization is unavailable. The language in Section 6(b) is far from clear, and largely discusses the Commission's classification of corporations. I do not believe that Congress gave the FTC authority to enact substantive rules related to any provision of the FTC Act using this "oblique" and unclear language. In addition, the decision by Congress to omit unfair methods of *competition* rulemaking in the Magnuson-Moss Act, which immediately followed the decision in *National Petroleum Refiners*, is additional evidence that Congress has not clearly authorized the FTC to make competition rules that may have significant political or economic consequences. Moreover, Congress did not remove the known ambiguity when it enacted the FTC Improvements Act of 1980.[60]

Third, the authority for the Non-Compete Clause Rule may be challenged under the non-delegation doctrine. The doctrine is based on the principle that Congress cannot delegate its legislative power to another branch of government, including independent agencies.[61]

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[55] *Id.* at 2600-01 (Gorsuch, J. concurring).

[56] Russell Beck, A *Brief History of Noncompete Regulation,* FAIR COMPETITION LAW (Oct. 11, 2021), https://faircompetitionlaw.com/2021/10/11/a-brief-history-of-noncompete-regulation/.

[57] West Virginia v. EPA, 142 S.Ct. at 2600 (Gorsuch, J. concurring).

[58] NPRM Part II.B.1.a.

[59] *Id*. Part II.C.1.

[60] *See* H.R. Rep. No. 96-917, 96th Cong., 2d sess. 29-30 (1980), reprinted in THE LEGISLATIVE HISTORY OF THE FEDERAL ANTITRUST LAWS AND RELATED STATUTES 5862 (Earl W. Kintner ed., 1982) (conference report on FTC Improvements Act of 1980 explaining that when adopting a restriction on standards and certification rulemaking brought as an unfair or deceptive act or practice, conferees were not taking a position on the Commission's authority to issue a trade regulation rule defining 'unfair methods of competition' pursuant to section 6(g). "The substitute leaves unaffected whatever authority the Commission might have under any other provision of the FTC Act to issue rules with respect to 'unfair methods of competition.'").

[61] Five Supreme Court justices have expressed interest in reconsidering the Court's prior thinking on the doctrine, which increases the risk that a challenge may be successful. *See Gundy v. United States*, 139 S. Ct. 2116, 2131 (2019) (Alito, J. concurring) (stating with respect to the nondelegation doctrine that "[i]f a majority of this Court

Since the 1920s, the Supreme Court has found that Congress has not made an improper delegation of legislative power so long as Congress has set out "an intelligible principle to which the person or body authorized to fix [rules] is directed to conform."[62] Applying this principle in *Schechter Poultry*,[63] the Supreme Court approved Congressional authorization for the FTC to prohibit unfair methods of competition, relying on the Commission's administrative enforcement proceedings where the Commission acts as "a quasi judicial body" and that "[p]rovision was made for formal complaint, for notice and hearing, for appropriate findings of fact supported by adequate evidence, and for judicial review . . ."[64] The Court simultaneously found that provisions of the National Industrial Recovery Act to issue "codes of fair competition" were *improper* delegations of legislative power, distinguishing the impermissibly broad fair competition codes from the FTC Act's approach to address unfair methods of competition that are "determined in particular instances, upon evidence, in light of particular competitive conditions[.]"[65]

Notably, the Commission's proposed ban on non-compete clauses abandons the Commission's procedures that led the Supreme Court in *Schechter Poultry* to find that the Commission's enforcement of "unfair methods of competition" does not constitute an improper delegation of legislative power. In addition, to the extent that the Commission's Section 5 Policy Statement (which provides the basis for determining that non-compete clauses are an unfair method of competition) abandons the consumer welfare standard to pursue multiple goals, including protecting labor, the Commission's action more closely resembles the National Industrial Recovery Act codes that also sought to implement multiple goals under the guise of codes of fair competition.

IV. Comments are Encouraged

The NPRM invites public comment on many issues. I strongly encourage the submission of comments from all interested stakeholders. After all, unlike rulemaking for consumer protection rules under the Magnuson-Moss process, ***this is likely the only opportunity for public input before the Commission issues a final rule***. ***For this reason, it is important for commenters to address the proposed alternatives to the near-complete ban on non-compete provisions.*** To the extent that the NPRM proposes alternatives to the current proposed rule, if the Commission were subsequently to adopt one of the alternatives, which would be a logical outgrowth of the current

were willing to reconsider the approach we have taken for the past 84 years, I would support that effort"); *id.* at 2131 (Gorsuch, J., dissenting, joined by Chief Justice Roberts and Justice Thomas) (expressing desire to "revisit" the Court's approach to the nondelegation doctrine); *Paul v. United States*, 140 S. Ct. 342, 342 (2019) (statement of Kavanaugh, J, respecting the denial of certiorari); Amy Coney Barrett, *Suspension and Delegation*, 99 Cornell L. Rev. 251, 318 (2014).

[62] J.W. Hampton, Jr., & Co. v. United States, 276 U.S. 394, 409 (1928).

[63] A.L.A. Schechter Poultry Corp. v. United States, 295 U.S. 495 (1935).

[64] *Id.* at 533.

[65] *Id.*

proposed rulemaking,[66] there would be no further opportunity for public comment. Moreover, the Commission believes that if it were to adopt alternatives that differentiate among categories of workers, the various rule provisions would be severable if a court were to invalidate one provision. Consequently, it is important for the public to address each of the alternatives proposed in the NPRM because the comment period on the proposed rule is the only opportunity for public input on those alternatives.

In addition to the issues for which the NPRM invites comments, I encourage stakeholders to address the following points:

- The NPRM references some academic studies regarding non-competes. What other academic literature addresses the issues in the NPRM, including the procompetitive justifications for non-compete provisions?

- The NPRM describes papers that exploit natural experiments to estimate the effects of enforcing non-compete clauses. While this approach ensures that the estimates are internally valid, it reflects the causal effects of non-compete agreements only in the contexts within which they are estimated. What should the Commission consider to understand whether and when these estimates are externally valid? How can the Commission know that the estimates calculated from the contexts of the literature are representative of the contexts outside of the literature?

- The NPRM draws conclusions based on "the weight of the literature," but the literature on the effects of non-compete agreements is limited, contains mixed results, and is sometimes industry-specific. Which conclusions in the NPRM are supported by the weight of the literature? Which conclusions in the NPRM contradict the weight of the literature? Which conclusions in the NPRM require additional evidence before they can be considered substantiated?

- Where the evidence provided in the NPRM is limited, is the evidence sufficient to support either the proposed ban on non-compete clauses or the proffered alternative approaches to the proposed ban?

- What are the benefits and drawbacks of the currently proposed ban compared to the proposed alternative rule that would find a presumption of unlawfulness, including the role of procompetitive justifications in rebutting a presumption?

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[66] *See* Owner-Operator Indep. Drivers Ass'n v. Fed. Motor Carrier Safety Admin., 494 F.3d 188, 210 (D.C. Cir. 2007); *see also* Agape Church, Inc. v. FCC, 738 F.3d 397, 412 (2013) (holding that FCC "sunset" rule was a logical outgrowth when proposed rule gave public notice that a viewability rule was in danger of being phased out, *i.e.*, a sunset provision).

Intellectual Property Owners Association®

April 17, 2023

Federal Trade Commission
Office of the Secretary
600 Pennsylvania Avenue NW
Suite CC-5610 (Annex C)
Washington, DC 20580

Submitted via: https://www.regulations.gov

Re: Non-Compete Clause Rule, Matter No. P201200

Dear Federal Trade Commission:

The Intellectual Property Owners Association (IPO) appreciates the opportunity to respond to the request for comments on the *Non-Compete Clause Rule* notice of proposed rulemaking published in the Federal Register on January 19, 2023 ("Notice").

IPO is an international trade association representing a "big tent" of diverse companies, law firms, service providers and individuals in all industries and fields of technology that own, or are interested in, intellectual property (IP) rights. IPO membership includes over 125 companies and spans over 30 countries. IPO advocates for effective and affordable IP ownership rights and offers a wide array of services, including supporting member interests relating to legislative and international issues; analyzing current IP issues; providing information and educational services; supporting and advocating for diversity, equity, and inclusion in IP and innovation; and disseminating information to the public on the importance of IP rights.

IPO's vision is the global acceleration of innovation, creativity, and investment necessary to improve lives. The Board of Directors has adopted a strategic objective to foster diverse engagement in the innovation ecosystem and to integrate diversity, equity, and inclusion in all its work to complement IPO's mission of promoting high quality and enforceable IP rights and predictable legal systems for all industries and technologies.

IPO is grateful for this opportunity to share feedback. IPO's members have extensive experience with the intellectual property system. IPO will primarily focus its comments below on the proposed rule's potential impact on the protection of intellectual property and innovation embodied in confidential business information, technical information, and trade secrets. Maintaining this protection is crucial to U.S. industry, both to allow for a fair and predictable playing field in the U.S. and to allow U.S. companies to continue to compete with global competitors. Our organization hopes that these comments will be helpful to the FTC's decision-making process.

1. *Non-Compete Clauses and Non-Disclosure Agreements Provide Important Protections Not provided by Trade Secret Laws or Other Similar Laws.*

In the experience of IPO's members, non-compete clauses are a legitimate and important tool organizations use to protect trade secrets and confidential information, which are vital to the nation's economy and security.[1] Theft of trade secrets and confidential information by employees does significant damage to our economy and undermines the incentive to invest in research and development. Non-compete clauses provide important protections that are not provided by trade secret laws or other similar laws.

IPO appreciates the FTC's desire to ensure fair methods of competition for employees and to address the consequences of non-compete clauses on employees. Such clauses have been and should remain subject to reasonableness restrictions.[2] Over the past decade, the majority of states updated their non-compete laws and most added further restrictions to address situations states viewed as inappropriate.[3] To the extent there are problematic aspects of non-compete clauses, states have recognized and are actively dealing with these issues.

IPO has many concerns with the impact of the proposed rule. It would advantage companies outside the U.S. and the resulting loss of trade secrets and confidential information has the potential to harm our national security. The proposed "functional" test is unclear and could result in the questioning of existing non-disclosure agreements, which would further weaken protection of trade secrets and confidential information. The proposed rule applies equally to lower wage employees and senior employees even though there are important differences between the two groups, as explained below.

The FTC's proposal would override and deem inherently "unfair" a form of agreement enforced by courts innumerable times over hundreds of years.[4] The experience of IPO members has been that reasonable non-compete clauses are vital for adequately protecting trade secrets and confidential information. IPO believes that there is a prevailing public misunderstanding regarding the role of non-compete and non-disclosure agreements in protecting trade secrets, which IPO attempts to clarify in these comments.

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[1] *See* President's Statement on Signing the Economic Espionage Act of 1996 ("Trade secrets are an integral part of virtually every sector of our economy and are essential to maintaining the health and competitiveness of critical industries operating in the United States. Economic espionage and trade secret theft threaten our Nation's national security and economic well-being.") (Oct. 11, 1996), *available at* https://www.presidency.ucsb.edu/documents/statement-signing-the-economic-espionage-act-1996.

[2] Virtually every state that permits non-competes requires them to be reasonable. *See* Russell Beck, Beck Reed Riden LLP, *Employee Noncompetes: A State-by-State Survey* (February 11, 2023), *available at* https://beckreedriden.com/50-state-noncompete-chart-2/.

[3] *See* Russell Beck, "Almost 60 percent of states updated their noncompete laws in the last decade," *available at* https://faircompetitionlaw.com/2023/02/12/noncompete-law-changes-in-the-last-decade-updated-february-12-2023/.

[4] *See, e.g.*, *Mitchel v Reynolds* (1711) 1 PWms 181.

2. *Non-Compete Clauses Provide Important Protections that Organizations Cannot Achieve with Trade Secret Laws Alone*

U.S. businesses lose an estimated $180 billion to $450 billion to trade secret misappropriation each year.[5] Non-compete clauses help address some of the many limitations that make trade secret enforcement difficult.

First, it is very difficult to detect and prove trade secret misappropriation. By definition, a trade secret is information that can be used by a company in secret without the information being "readily ascertainable" by others.[6] Thus, when misappropriators implement stolen trade secrets in their own business, it is usually impossible to detect that use from outside appearances. Indeed, the likeliest sources of potential evidence are controlled by the guilty parties and are usually inaccessible to the trade secret owner. This often leaves a wronged trade secret owner without a remedy, as mere suspicion of trade secret misappropriation is not enough of a basis to justify bringing a lawsuit. Even where it might be possible to bring a suit, due to the lack of access to evidence there is often not enough knowledge to provide a business justification for the significant risk, expense and internal disruptions that come with bringing a lawsuit.

Second, trade secret litigation is expensive and many of the key issues are unpredictable, such as whether a court will view the owner's protective measures as reasonable under the circumstances, a standard that is flexible but subjective and contextual.[7] In general, our economy benefits to the extent we avoid litigating disputes. Trade secret cases are fact intensive and require litigating challenging questions such as the precise contours of the stolen trade secrets.[8] Litigating the theft of trade secrets and other confidential information can be even more disruptive, and harder to settle, than other types of litigation in view of confidential information that by its nature can be built through decades of committed protection and investment.

Third, trade secret suits typically arise after irreparable harm has already occurred. Suspicion of trade secret misappropriation often emerges long after the trade secrets were misappropriated and sometimes after the trade secrets have been publicly disclosed. As courts have recognized, once a trade secret is disclosed, its value to the owner cannot be

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[5] *See* "Safeguarding Trade Secrets In The United States," hearing before the U.S. House of Representatives, Commerce Committee, Subcom. on Courts, Intellectual Property & the Internet, April 17, 2018 (statement of Chairman Goodlatte), *available at https://www.govinfo.gov/content/pkg/CHRG-115hhrg32940/html/CHRG-115hhrg32940.htm*.

[6] *See* 18 U.S.C. § 1839(3)(B) (defining "trade secret" for the purposes of the Economic Espionage Act and Defend Trade Secrets Act).

[7] *See, e.g.*, Bloomberg Law, "Costs Soar for Trade Secrets, Pharma Patent Suits, Survey Finds" (Sept. 10, 2019), *available at* https://news.bloomberglaw.com/ip-law/costs-soar-for-trade-secrets-pharma-patent-suits-survey-finds (reporting median litigation costs in trade secret cases from $7.5 million to $4.1 million); 18 U.S.C. § 1839(3)(A) (requiring that the owner has taken "reasonable measures" to keep the information secret).

[8] *See* The Sedona Conference, Working Group on Trade Secrets, "Commentary on the Proper Identification of Asserted Trade Secrets in Misappropriation Cases," 22 SEDONA CONF. J. 223, at 234 (2021) (April 2020) (explaining why the identification of asserted trade secrets poses special challenges in litigation), *available at* https://thesedonaconference.org/sites/default/files/publications/3_Identification_of_Trade_Secrets_0.pdf.

fully recovered.[9] "'The very nature of a trade secret mandates that misappropriation will have significant and continuous long-term effects,' such as permanent loss of competitive business advantage or market share."[10] For this reason, courts grant injunctions in trade secret cases more often than other types of litigation, but the availability and effectiveness of such injunctions is far from certain.

In sharp contrast, non-compete clauses allow businesses to protect against misappropriation *before* it happens. Non-compete clauses serve to deter workers from misappropriating a former employer's confidential information and trade secrets for the benefit of a competitor because contractual remedies are more straightforward and the restricted conduct more clearly understood by the parties (and therefore easier to assess before deciding to litigate as well as to prove or to disprove). Violations of non-compete clauses are easier to detect, easier to remedy, and, when they result in litigation, have more predictable outcomes. Former employers tend to have easier access to evidence of imminent non-compete clause violations and can seek injunctions before irreparable harm occurs. Non-compete clauses thus mitigate the risk of a departing employee's unintentional disclosures to a new employer, as well as aid awareness and sensitivity of the new employers in mitigating risks of potential disclosures, as the protection of confidential information in some circumstances is immediately imperiled once the employee takes the new job.

3. *Evidence and Experience of IPO Members Show that Reasonable Non-Compete Clauses Are Necessary*

The Notice concludes from the fact that there were 1,382 trade secret lawsuits filed in federal court in 2021 that employers view trade secret laws as a sufficient means of protecting their trade secrets.[11] IPO believes that the high number of lawsuits shows the opposite—*i.e.*, that trade secret theft is a significant problem despite the existence of trade secret laws at both federal and state levels. Given the detection difficulties and litigation hurdles discussed above, the actual scope of trade secret theft must be significantly greater than the number of lawsuits filed. Businesses generally view trade secret litigation as a last-resort option because it is costly, slow, disruptive, and often fails to provide an adequate remedy for the loss of the secret. Trade secret litigation is particularly problematic when criminal theft occurs and the government institutes an investigation that might take precedence over the trade secret owner's desire for private enforcement.[12] If a trade secret owner has proof that an employee misappropriated their trade secret, that employer can and may sue under trade secret law, but businesses view filing a lawsuit as a worst-case outcome that is unlikely to fully make up for their loss.

The Notice concludes that non-compete clauses are unnecessary because the agency "is not aware of any evidence non-compete clauses reduce trade secret

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[9] *See N. Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 49 (2d Cir. 1999) ("We have held that 'loss of trade secrets cannot be measured in money damages' because '[a] trade secret once lost is, of course, lost forever.'") (quoting *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir. 1984)).
[10] *Arminius Schleifmittel GmbH v. Design Indus., Inc.*, No. 1:06CV00644, 2007 U.S. Dist. LEXIS 10847, at *22 (M.D.N.C. Feb. 15, 2007) (quoting *Barr-Mullin, Inc. v. Browning*, 424 S.E.2d 226, 230 (1993)).
[11] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3506.
[12] *See* Peter Menell et al., TRADE SECRET CASE MANAGEMENT JUDICIAL GUIDE, § 1.2.3, at 1-6 (describing various tensions that "courts and litigants need to navigate when dealing with potentially parallel civil and criminal proceedings"), *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4360102.

misappropriation or the loss of other types of confidential information."[13] IPO notes, however, that reliable empirical evidence of trade secret theft is hard to obtain for the reasons discussed above, such as the difficulty detecting misappropriation. In addition, California has stricter limits on non-compete clauses and there are a high number of trade secret lawsuits in that state, which is evidence that stricter limits on non-competes may result in more alleged losses of trade secrets.[14]

Further, most trade secret misappropriation is by former employees,[15] who have access to the information, understand its value, and know how to use it. Non-compete clauses reduce the risk that an employee will use confidential information in the service of their new employer by reasonably delaying the date when they can work for certain types of competitors without restricting their ability to obtain other employment immediately. Some employees intentionally misuse a former employer's confidential information when they join a new employer, but often the misuse occurs innocently due to the employee's misunderstanding of the law and their obligations. As some courts have recognized, misuse of a former employer's confidential information in some situations (but not all) may be inevitable due to the nature of the new position. Arguably, concluding that non-compete clauses can be banned because trade secret theft is prohibited by law would be like concluding that car doors can be made without locks because car theft is against the law. Even though there are laws against stealing, to adequately protect their assets, car owners should use car locks to prevent car theft and businesses should be able to use reasonable non-compete agreements to reduce the risk and impact of trade secret misappropriation.

As justification for the change that the proposed rule would impose, the Notice relies greatly on its reading of "current economic evidence about the consequences of non-compete clauses."[16] The Notice contains a long analysis of various studies and other sources. Rather than comment on each individually, IPO directs the FTC to the recent analysis of Jonathan Barnett and Ted Sichelman that reviews the literature comprehensively and finds little support for the view that non-compete clauses hurt innovation.[17] They show that "all of the major economic studies claiming negative effects on innovation and economic growth from noncompetes have significant errors or are incomplete" and that "these studies are produced by economists and business school professors whose interpretations of state law are over-simplified or contain serious errors."[18] They compare the economies of Silicon Valley and Route 128 in Massachusetts and show there is little reason to attribute Silicon Valley's success to differences in the enforceability of non-compete clauses.[19] As they explain, there are various reasons for

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[13] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3505 ("The Commission's understanding is there is little reliable empirical data on trade secret theft and firm investment in trade secrets in general, and no reliable data on how non-compete clauses affect these practices.")
[14] *See* Russell Beck, "California Trade Secrets Litigation Supplants Noncompete Litigation," *available at* https://faircompetitionlaw.com/2017/06/25/california-trade-secrets-litigation-supplants-noncompete-litigation/.
[15] *See* The National Law Review, "Workplace Confidential: Preventing Former Employees from Using Your Trade Secrets" (Aug. 24, 2020), *available at* https://www.natlawreview.com/article/workplace-confidential-preventing-former-employees-using-your-trade-secrets.
[16] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3482.
[17] *See* Jonathan Barnett & Ted Sichelman, "The Case for Noncompetes," U. OF CHICAGO L.R. 953 (Vol. 87, Issue 4, Art. 2).
[18] Jonathan Barnett and Ted Sichelman, "The Flawed Case Against Noncompetes," THE HILL (Jul. 29, 2021), *available at* https://thehill.com/opinion/judiciary/565333-the-flawed-case-against-noncompetes/.
[19] *See* Jonathan Barnett & Ted Sichelman, "The Case for Noncompetes," U. OF CHICAGO L.R. at 963.

Silicon Valley's success and it would be overly simplistic to conclude that California's vibrant economy was caused by the state's limits on non-compete clauses. They also document a resurgence of Route 128 that contradicts the basic premise that non-compete clauses harm innovation.[20] As a result of California making it harder to enforce preventative measures such as non-compete clauses, some of the thefts that would have been prevented by non-compete agreements result in trade secret lawsuits because there is often no other mechanism of redress available. It stands to reason that non-compete clauses, by delaying an employee from taking employment in a competing business, reduce the leakage of confidential information from an employee to that new company.

4. *The Proposed "Functional" Test is Unclear and Likely to Create Unpredictability*

The proposed "functional" test for treating certain post-employment restrictive covenants as banned *de facto* non-compete clauses is too vague to provide the level of predictability that businesses and employees deserve. The proposed test—whether the clause "has the effect of prohibiting the worker from seeking or accepting employment"[21]—does not provide meaningful guidance for drafting covenants with confidence that the FTC or a court will not find them objectionable. While a given restriction might make alternative employment less attractive or more difficult to obtain, it is not at all apparent what might trigger the prohibited "effect" when drafting an agreement. This creates unknown (and unknowable) risks for both employer and employee. In contrast, current state statutes and developed case law, which examine enforceability of non-compete covenants based on factors such as the reasonableness in scope, geography and duration, have protected employees and provided employers with predictability in drafting and enforcement. The Notice has not demonstrated that such existing state laws are inadequate.

IPO is particularly concerned with the Notice's suggestion that non-disclosure agreements (NDAs) could fall afoul of the proposed functional prohibition, which the Notice would codify with an NDA-specific section of the rule.[22] NDAs play a critical role in the protection of confidential information and trade secrets by safely enabling an employer's disclosure of such information to its workers so they can carry out their job functions. Trade secret statutes define "misappropriation" to include acquiring a secret from someone who has a duty to keep it secret;[23] that duty is typically embodied in an NDA. In addition, employers often depend on NDAs among key reasonable measures to protect their information and thus qualify it as a trade secret.[24]

Under the proposed rule, an NDA functions as a non-compete clause if "written so broadly that it effectively precludes the worker from working in the same field after the conclusion of the worker's employment."[25] No definition or other guidance about how to

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[20] *Id.* at 1006-09.
[21] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3535 (proposed section 910.1(b)(2)).
[22] *See id.* (proposed section 910.1(b)(2)(i)).
[23] *See, e.g.*, 18 U.S.C. § 1839(5)(B)(ii) (specifying types of misappropriation under the Economic Espionage Act and Defend Trade Secrets Act).
[24] *See* 18 U.S.C. § 1839(3)(A) (defining "trade secret," for the purposes of the Economic Espionage Act and Defend Trade Secrets Act, as information for which the owner has taken reasonable measures to keep such information secret).
[25] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3535 (proposed section 910.1(b)(2)(i)).

determine whether a position is in the "same field" is provided.[26] Without adequate guidelines, this test creates profound uncertainty and risk that an NDA may be deemed a *de facto* non-compete clause, which could undermine the company's ability to protect its information assets and to assert trade secret misappropriation.

The Notice cites as support for this proposed rule, *Brown v. TGS Management,* reading the case as holding that the NDA at issue was too broad, and that it restrained a far broader scope than is typical, because it defined "confidential information" as any information that is ''usable in'' or ''relates to'' the securities industry.[27] However, IPO believes that *Brown*, and the occasional case like it, are outliers. They should not be the reason for regulatory intervention and the imposition of a broad and unclear national rule that would leave employers unsure what facially valid restrictions might later "effectively preclude" some type of work. To the extent cases of overly broad and vague NDAs occasionally arise, courts are available to step in and address them.

Employers will not be equipped to determine whether particular employee confidentiality agreements fall within the *de facto* rule. This would make compliance with the proposed regulation even more difficult, a result that is particularly troubling given the proposed rule's requirement that all employee non-compete clauses be affirmatively rescinded and notifications be given to all current and former employees.[28] In addition to the scale and practical challenges of such notifications, the rescission requirements of the proposed rule create specific concerns for employers who may have NDAs with current and former employees that could be interpreted by some as impermissible *de facto* non-competes under the new rule. Employers in this position would likely seek to revise NDAs to comply with the rule. This is likely impractical for former workers (which include contractors under the rule), with the result being irrevocable loss of confidentiality protections upon which businesses have relied, perhaps for decades. This result could endanger the ability of employers to show that they have taken reasonable measures to protect their trade secrets from disclosure.

In addition, many confidentiality agreements between companies (between, *e.g.,* sellers and customers, partners to a joint development agreement, etc.) require each party

[26] Consider a worker who is by education and training an immunologist and under an NDA covering employer's confidential information and trade secrets. At the time the NDA was entered into, without the FTC's guidance, there is no context and no predictability whether "in the field" would be construed broadly, as in the field of "immunology," or more narrowly, for example, the field of "development of specific antibodies from particular antigens," or even more narrowly to the field of "use of a particular molecular technique such as recombinant DNA, Crispr, tissue culture, stem cell isolation or gene therapy." Or is the field to be broadly defined by the worker's study of a certain disease, like cancer, aging, Parkinson's, and diabetes? These are real multidimensional uncertainties and they exist for workers, particularly those involved in research and development, quality control, and manufacturing, in the biotech, aerospace, energy, automotive, chemical, medical device, electronics, semiconductor, and artificial intelligence industries, to name a few. The problematic nature of determining "in the field" is evident from considering the different job opportunities available to workers such as recent biology graduates, *see* https://www.utsc.utoronto.ca/aacc/career-options-after-molecular-biology-and-biotechnology, and those in the medical device sector, *see* https://www.srgtalent.com/career-advice/roles-in-focus/medical-devices, and diagnostic services, *see* https://www.healthcarepathway.com/health-care-careers/diagnostic-services/. These handful of examples demonstrate that "in the field" is neither a useful nor a practical measure.
[27] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3509 (quoting *Brown v. TGS Mgmt. Co., LLC*, 7 Cal. App. 5th 303, 306, 316–19 (Cal. Ct. App. 2020)).
[28] *See id.*, 88 Fed. Reg. at 3535 (proposed section 910.2(b)(2)(ii)).

receiving confidential information to assure that its employees and contractors that have access to the other party's confidential information be subject to confidentiality agreements with their employer that would extend to the other party's information. The sudden and possibly irreversible loss of employee NDAs could potentially throw some employers into breach of their own NDAs with customers, vendors, partners and others. Sweeping NDAs into the non-compete rules can thus place U.S. employers at risk of losing trade secret rights and breaching their own confidentiality obligations.

For these reasons, IPO suggests that the *de facto* provisions should be excluded from any final rule and that, should the FTC go forward with its proposed ban on non-compete clauses, it should withdraw the functional test. IPO agrees that the label parties give to a clause, such as "NDA" or "non-compete agreement," do not govern its meaning (although it can indicate the parties' intent). Courts are already capable at crediting substance over form; an FTC rule on the subject, as much as it is intended to provide generally applicable guidance for all situations, is more likely to only introduce more confusion. At a minimum, if there must be a "functional test" in an FTC rule, it should also identify restrictions that are presumed valid, such as providing a safe harbor for NDAs that protect only information that is actually confidential to the employer.

5. *The Proposed Ban Would Advantage Companies Outside the United States and the Resulting Loss of Trade Secrets Would Harm National Security*

As has been widely reported, the valuable secrets of U.S. companies are under significant threat from companies outside the U.S. As described above, non-compete clauses and non-disclosure agreements allow companies to better protect confidential information and trade secrets. IPO believes it would be a mistake for the United States to impose the ban proposed in the rule, while many other major economies gave their companies an advantage by allowing reasonable use of these tools. Examples of countries that allow non-competes include China, France, Germany, and Italy.[29]

Banning non-compete clauses in the U.S. would result in even greater loss of trade secrets to the detriment of our economy and national security. At a March 8, 2023 House subcommittee hearing entitled "Intellectual Property and Strategic Competition With China: Part 1," subcommittee Chairman Issa suggested during his questioning of a witness that, where other countries permit limited non-compete agreements, the U.S. "cannot

[29] *See* DLA Piper, "Guide to Going Global – Employment," at 96, 146, 155, and 226 , *available at* https://www.dlapiperintelligence.com/goingglobal/employment/ (downloaded Mar. 6, 2023). This guide, which summarizes laws on post-employment restraints for many countries, reports for example that:

China allows non-compete restrictions of less than two years, with compensation required per local rules;

France allows non-competes if justified by the company's business and employee's role and if they are essential to the protection of the company's legitimate interests, limited in time, limited in space, take into account the specificities of the employee's duties, and provide for financial compensation;

Germany allows for non-compete clauses if less than a maximum of 2 years and provided that 50% of the employee's salary is paid during the non-compete period;

Italy allows for non-competes if agreed in writing and limited in scope, territory, time and if they provide an adequate compensation.

compete against those countries if they have that kind of non-compete, essentially protecting their trade secrets and their developments, and we don't." [30]

Allowing U.S. non-compete clauses are particularly important in cases involving trade secret misappropriation involving jurisdictions outside the U.S., where the evidentiary burdens imposed on a plaintiff to prove that their confidential information is in the hands of another party are often insurmountable particularly because, unlike in the U.S. system, discovery is often extremely limited. In addition, companies may be hesitant to file trade secret misappropriation cases in countries whose court systems do not adequately protect the confidential information introduced into the case; by bringing a trade secret action in these countries, a U.S. plaintiff may face an even more detrimental situation because the secret could be lost to further foreign competitors in addition to the original defendant. As discussed above, reasonable non-compete clauses are a prophylactic that prevents harm, rather than attempting to discover and redress trade secret misappropriation (often with great difficulty) later. With our nation's position in the world dependent upon our ability to protect the secrecy of our most sensitive and valuable information, the FTC should not take away an effective tool and should not provide an incentive to remove sensitive jobs to jurisdictions outside the U.S. that respect reasonable non-compete agreements.

6. *Other Specific Issues Raised by the Notice, Including Distinguishing Between Different Categories of Workers*

The Notice asked for public input on two key questions underlying several "alternatives related to the rule's fundamental design."[31] First, the Notice seeks comment on whether it should adopt a rebuttable presumption instead of a categorical ban. The Notice acknowledges that there may be specific factual scenarios that the FTC does not currently anticipate and that do not "implicate the anticompetitive concerns the Commission is concerned about," [32] and it sees a rebuttable presumption as being advantageous because it could allow the non-compete clause to be valid in such situations. IPO is confident that there are many scenarios that no one can anticipate among the many millions of employment relationships in the United States. For this reason, and the other reasons provided in this letter, IPO recommends the FTC not issue any rule that would categorically ban non-compete clauses.

The Notice also acknowledges the concern that a rebuttable presumption approach "could foster confusion among employers and workers because the question of whether an employer may use a non-compete clause would depend on an abstract legal test rather than a bright-line rule."[33] Again, IPO agrees that the FTC is right to have this concern. IPO is confident that the rebuttable presumption tests that the Notice describes would cause confusion among employers and workers, especially because there will be little or no case law developments to explain the rule, as the Notice acknowledges. This would undoubtedly lead to more litigation. For the reasons discussed in this letter, IPO believes

[30] Chairman Darrell Issa, "Intellectual Property and Strategic Competition With China: Part 1," hearing before the U.S. House of Representatives, Commerce Committee, Subcom. on Courts, Intellectual Property & the Internet (staring at time 1:51:10) (Mar. 8, 2023).
[31] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3516. The FTC intends this request for input on alternatives to satisfy a rulemaking requirement in the FTC Act. *See id.* at n. 410.
[32] *Id.* at 3518.
[33] *Id.* at 3517.

that neither a categorical ban nor a rebuttable presumption is necessary nor advisable to address this issue.

Second, the Notice seeks comment on whether there should be different non-compete clause rules for "different categories of workers based on a worker's job function, occupation, earnings, another factor, or some combination of factors."[34] If the FTC does issue a non-compete clause rule, IPO recommends that the differentiation be made based on an objective standard, such as salary level, because it is important that this distinction be easily understood by all parties. There is a genuine cost to everyone if it is difficult to predict whether the non-compete ban will apply to a particular employee. It should not require expensive, burdensome and uncertain litigation to answer this question. Employers, workers, and courts all benefit from clarity and predictability.

Perhaps an optimal objective standard would be a rule that would only ban non-compete clauses for employees below a certain salary level with modest exceptions. Such a rule should account for the different costs of living in different parts of the country. Thus, for example, it could be tied into a function of the Fair Labor Standards Act or a multiple of the state poverty level or minimum wage.[35] In any case, whatever standard is used, the threshold should be judged as of the time the contract is executed.

There are a number of good reasons to differentiate based on a factor such as salary level. First, as the Notice acknowledges, any concerns that non-compete clauses are exploitative and coercive at the time of contracting and at the time of a worker's potential departure do not apply to senior executives.[36] Second, higher-paid employees are more likely to possess confidential information and trade secrets with access to broader business context and information that could be protected by an enforceable non-compete agreement. Third, many higher paid employees have greater responsibilities and are compensated well enough to account for any reasonable limitations on their ability to compete with the company on behalf of a new employer.

The Notice states that non-compete clauses harm product markets by preventing senior executives from switching to jobs "in which they would be better paid and more productive," thus denying them "the benefits of higher earnings through increased competition in the market for their labor."[37] IPO believes, however, that as an initial matter, it is not always the case that a senior employee leaves a job to work at a competitor in order to obtain a higher salary. For example, the employee may simply choose to leave their current employer for professional development or personal reasons, or, more disconcerting to the trade secret issues at hand, they may have misused confidential information and may be separating from their current employer for cause. Further, if a senior employee does not wish to enter into a non-compete agreement, they generally have the ability to negotiate. If the FTC does issue a non-compete clause ban, it should not apply to senior employees.

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[34] *Id.* at 3518.
[35] *See*, *e.g.*, M.G.L. c. 149, § 24L(c) (Massachusetts: "employee who is classified as nonexempt under the Fair Labor Standards Act, 29 U.S.C. 201-219"); 26 M.R.S. § 599-A (Maine: "400% of the federal poverty level"); N.H. RSA § 275:70-a (New Hampshire: "200 percent of the federal minimum wage"); R.I. Gen. Laws § 28-59-3 (Rhode Island: "employee who is classified as nonexempt under the Fair Labor Standards Act, 29 U.S.C. §§ 201-219").
[36] *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3520.
[37] *Id.* at 3518.

7. *States Have Recognized and Are Dealing with Problematic Aspects of Non-Compete Clauses*

As laboratories of democracy,[38] states are actively taking various approaches to perceived problems with employee non-compete agreements.[39] Several set thresholds of income below which no non-compete clause is valid.[40] Several have also created categories of minimum wage and other conditions regarded as abusive.[41] They have through legislation or court precedents defined duration limits for such covenants. Some states make the covenant invalid if the employer terminates employment without cause.[42] Some states give their attorney general, courts and others authority to impose fines for abusive non-compete practices, such as inadequate notice of the covenant or flagrant over-reach of scope of the covenant, complementing long standing practice of their courts (and federal courts addressing state law issues in diversity and adjunct jurisdiction cases).[43] While reasonable limits on non-compete clauses are appropriate, these are already applied at the state level.

The ability of enterprises to adequately protect confidential information and trade secrets is vital to our economy. Without adequate contractual protections, employers are less likely to allow information to be shared and to invest in their employees. Some companies will be much more restrictive in the size of teams and in allowing the sharing of information across teams, even within the same company, which would inhibit innovation in the United States. Trade secret misappropriation by a departing employee does not just damage the employer, it hurts those employees who remain at that company.[44] Reasonable non-compete agreements are a legitimate and important tool that organizations should continue to have available to protect trade secrets and confidential information.

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[38] *See New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, dissent) ("Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.").

[39] *See* Russell Beck, "Almost 60 percent of states updated their noncompete laws in the last decade," *available at* https://faircompetitionlaw.com/2023/02/12/noncompete-law-changes-in-the-last-decade-updated-february-12-2023/; Russell Beck, "42 noncompete bills in 18 states – and 3 federal bills," *available at* https://faircompetitionlaw.com/2023/02/05/42-noncompete-bills-in-18-states-and-3-federal-bills/.

[40] *See* Russell Beck, "New Noncompete Wage Thresholds for 2023," *available at* https://faircompetitionlaw.com/2023/02/06/new-noncompete-wage-thresholds-for-2023/.

[41] *Id*.

[42] *See*, *e.g.*, *Insulation Corp. of Am. v. Brobston*, 446 Pa. Super. 520, 667 A.2d 729, 735 (Pa. Super. Ct. 1995) ("It is unreasonable as a matter of law to permit the employer to retain unfettered control over that which it has effectively discarded as worthless to its legitimate business interests."). For a summary of all states, *see* Russell Beck, Beck Reed Riden LLP, *Employee Noncompetes: A State-by-State Survey* (February 11, 2023), *available at* https://beckreedriden.com/50-state-noncompete-chart-2/.

[43] *See*, *e.g.*, Colo. Rev. Stat. § 8-2-113(8)(b) (Colorado); 820 I.L.C.S. §§ 90/30(d) (Illinois); Me. Rev. Stat. Ti. 26, c. 7, § 599-A(6) (Maine); RCW § 49.62.80 (Washington); D.C. Code § 32-581.04 (Washington, D.C.).

[44] *See* Defend Trade Secrets Act of 2016, 130 Stat. 376, Pub. Law No. 114-153, at § 5(2) ("It is the sense of Congress that . . . trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies . . . .").

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IPO thanks the Federal Trade Commission for its attention to the comments submitted herein and welcomes further dialogue and opportunity to provide additional comments.

Sincerely,

Karen Cochran
President

LEASON ELLIS INTELLECTUAL PROPERTY ATTORNEYS

FTC PROPOSED RULE BANNING NON-COMPETE AGREEMENTS

By: Robert M. Isackson, Leason Ellis LLP

11.01.2023

Definitions (16 CFR 910.1)

- **<u>Non-compete clause</u> –**
  - **Prevents worker “from seeking or accepting employment” or “operating a business, after the conclusion of … employment”**
  - **Functional test – a clause however drafted is “a *de facto* non-compete clause” (and banned) when “it has the effect of prohibiting the worker from seeking or accepting employment … or operating a business after … employment ….”**
    - **Non-disclosure agreement “written so broadly that it effectively precludes the worker from working in the same field”**
    - **Repayment of training costs agreement (under certain circumstances)**
    - **Other restrictive covenants (excessive liquidation clause)**
    - **Employee handbooks (under certain circumstances)**

Definitions (cont.)

- **Employer – as defined in FTC Act, 15 U.S.C. 57b-1(a)(6):**
  - **any individual or entity that hires or contracts with a worker**
  - **excludes those exempt from FTC jurisdiction (e.g., certain financial institutions, common carriers, and non-profits, and those subject to Packers and Stockyards Act)**
- **Worker – any natural person, paid or unpaid, but not a “franchisee” business entity**
- **Substantial owner – 25% ownership interest in a business entity**

Unfair Methods Of Competition (§ 910.2)

- **Acts to be prohibited:**

  “to enter into or attempt to enter into a non-compete with a worker”

  “maintain with a worker a non-compete clause”

  “represent to a worker that the worker is subject to a non-compete clause [without a] good faith [belief it is] enforceable”

- **Compliance requires**
  - Recission of existing non-compete clauses by compliance date
  - Notice of recission by individualized communication to current and former workers
- **No private right of action - only FTC can enforce this rule against Employers**

Exception (§ 910.3)

A “substantial [owner]” (>25% interest) at time non-compete was entered into, who is:

- **selling a business entity**
- **disposing of business interest**
- **selling all or substantially all of a business entity’s operating assets**

Relation To State Laws (§ 910.4)

- **Rule supersedes any inconsistent state law, regulation, order, interpretation**
- **State law that affords a worker greater protection than the Rule still applies**

Rulemaking Authority

- **FTC Act Section 5:**
  - **declares unlawful “unfair methods of competition”**
  - **directs FTC to “prevent persons, partnerships, or corporation” from such acts**
- **FTC Act Section 6(g) authorizes making “rules and regulations” for enforcement**
- **FTC Act is not limited to acts in violation of Sherman/Clayton (antitrust) Acts (Majority view)**

FTC's Unfair Method Of Competition Analysis

- **FTC Act Section 5:**
  - **declares unlawful "unfair methods of competition"**
  - **directs FTC to "prevent persons, partnerships, or corporation" from such acts**
- **FTC Act Section 6(g) authorizes making "rules and regulations" for enforcement**
- **FTC Act is not limited to acts in violation of Sherman/Clayton (antitrust) Acts (Majority view)**

FTC Prelim'y Finds Non-competes Are Unfair Methods Of Competition

- **NC's negatively affect competition in labor, products and services markets**
  - **Reduce labor mobility – inhibit departure, foreclose access to talent**
  - **Reduce worker wages, both contracted and non-contracted (>$250B/yr)**
  - **Increase consumer prices (>$148B/yr in healthcare)**
  - **Do not improve product quality**
  - **Inhibit entrepreneurship**
  - **Decrease innovation (maybe) information flow and new entity formation**
- **Exploitative and coercive (except senior executives) at signing and at departure**

Availability of Alternatives Justify Proposed Rule

- **Trade secret laws – federal and state**
- **Non-disclosure agreements**
  - **trade secrets**
  - **Limited business confidential information**
- **Other**
  - **fixed duration employment contracts in exchange for training**
  - **better worker pay, promotion, working conditions, etc.**

FTC Request for Comments On Alternatives Under Consideration

- **Rebuttable presumption rather than outright ban**
  - **e.g, a "quick look" analysis, clear and convincing evidence not likely to harm competition in labor, product or service markets or has a competitive benefit that plausibly offsets any apparent or anticipated harm**
  - **e.g., clear and convincing evidence needed to protect a legitimate business interest**
- **Differentiate standard for categories of workers**
  - **Senior executives (CEOs, C-suite, other), highly skilled, highly paid, hourly rate (FLSA non-exempt) or salary threshold**
- **Substantial owner – change 25%**

(Consideration of alternatives is required by FTC Act)

Commissioner Wilson's Dissent

- Lack of clear evidence to support a rule that departs from hundreds of years of jurisprudence requiring a fact-specific inquiry into whether a non-compete clause is unreasonable in duration and scope given the business justification for the restriction
- The existing record provides no evidence that trade secret law, NDAs, and other investment protective mechanisms are effective substitutes for non-compete agreements –
  - Data is inconclusive, limited in scope, doesn't support extrapolating to broad conclusions
- Rule is contrary to the position taken by 47 State legislatures and bans conduct courts have found legal
- It is illogical to conclude clauses are exploitive and coercive simply due to imbalance of bargaining power
- Proposed rule is an impermissible delegation of legislative authority under the non-delegation doctrine
- FTC lacks rulemaking authority under FTC Act
- Legal precedent requires enforcement of non-compete provisions before finding harm.

Points to note

- **Trade secrets and NDA's are not an adequate substitute for non-compete clauses**
    - **trade secret misuse can be hard to detect due to secret nature of the information**
    - **litigation is never favored, and damage will already be done**
    - **Increased litigation over trade secrets and NDAs at least in those states that had enforced non-competes**
- **Hidden compliance costs (est. $1-2 B (one time)) –**
    - **companies will need to bolster their trade secret and confidential information protection programs**
    - **cost to relocate – lost advantage of jurisdiction that enforced non-competes**
    - **increased patenting costs**
- **Empirical evidence that non-competes reduce trade secret misappropriation or loss of other confidential information**

More points to note

- **The Substantial Owner (25%) definition will fundamentally change California law on mergers & acquisitions**
- **The FTC Rule will impact all 50 States plus DC on non-competes**
- **FTC failed to consider many alternatives to an outright ban that various States have implemented**
    - **Redefine "worker" to exclude investors, Board Members who do not do work**
    - **Limit duration of non-compete except for cause**
    - **"Garden leave" payments at a percent (e.g., 50%) of compensation**
    - **Improve (and narrow) definition of prohibited competition**
    - **Implement the ban in phases, starting with new hires and status adjustments, gradually phase out legacy non-competes**
    - **Add enforcement rights for State AGs or workers who are harmed**

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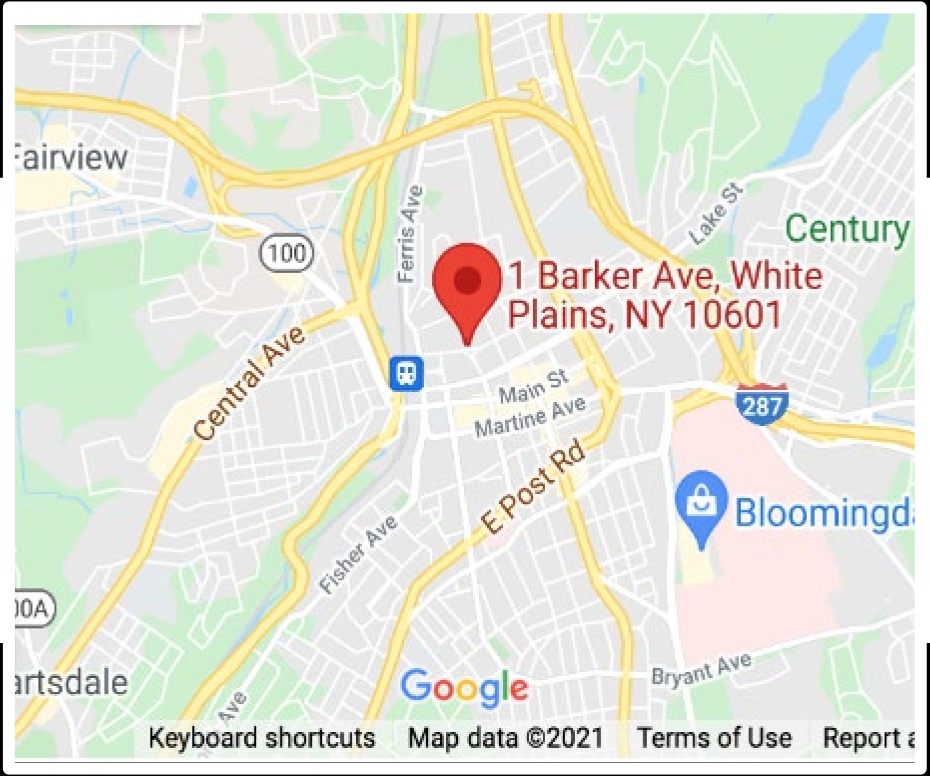

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April 19, 2023

Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Re: Non-Compete Clause Rulemaking, Matter No. P201200:
Written Submission of Practicing Attorneys and Paralegals Concerning Notice of Proposed Rulemaking

Dear Commissioners:

The signatories to this submission thank you for your consideration of the comments that follow and for all of the Commission's hard work in connection with its Non-Compete Clause Rulemaking efforts.

In response to the Commission's request for comments, we provide this submission in the hope of avoiding the potentially severe unintended consequences we foresee that may greatly overshadow any expected benefits of the proposed rule. We also identify an incremental path that we anticipate would accomplish most, if not all, of the Commission's objectives, with far less risk to workers, companies, and the economy.

SUMMARY OF SUBMISSION

This submission is divided into four parts:

Part I. Background information concerning the signatories (offered solely for the purpose of enabling the Commission to evaluate and weigh the credibility and reliability of our submission). *See infra pages 4-5, and Appendix A.*

Part II. A summary of lingering confusion about the use, enforcement, and impact of noncompete agreements. We believe that essential to the Commission's work is an understanding that many of the oft-repeated "facts" underlying the Commission's analysis are incorrect. *See infra pages 5-9.*

Part III. Information provided in response to the Commission's specific requests for comments in the Notice of Proposed Rulemaking ("NPRM") that are within our area of expertise. *See infra pages 9-61.*

Part IV. Elements of possible guidance or a rule that would achieve most of the Commission's objectives, while balancing the competing interests at play (*i.e.*, those of companies, workers, states, and the United States economy) and avoiding both significant unintended consequences that are likely to flow from the currently proposed rule and an over-reliance on academic literature, which has recently been called further into doubt by (among others) the very author of much of the research. *See infra pages 61-68.*

As to the latter, we pause to emphasize four of the most likely unintended consequences of the current proposed rule on matters that appear fundamental to the Commission's analysis.[1]

First, noncompetition agreements are a key prophylactic tool in the protection of trade secrets and other interests protected by state and federal law, and their elimination will inevitably lead to a substantial increase in trade secret litigation as a substitute for noncompete enforcement litigation, which has already occurred in California.[2] We view this as such a significant adverse consequence of the proposed rule that we emphasize it up front, even though it is against our own interests to do so. Specifically, for reasons explained below,[3] substituting trade secret litigation for noncompete litigation harms both workers and companies, and benefits primarily the lawyers.

Second, while a straight ban alone would lead inexorably to more litigation, the proposed "functional" test for other restrictive covenants will severely exacerbate that outcome. Specifically, the test threatens to invalidate the very alternative agreements to which, as the Commission recognizes, companies will necessarily turn[4] to protect their state-recognized

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1 Each of these is discussed in more detail later in this submission.

2 Consistent with that, the Defend Trade Secrets Act (the "DTSA"), 130 Stat. 376 (enacted on May 11, 2016 to amend the Economic Espionage Act, 18 U.S.C. § 1831-1839), did not, and was not intended to, replace noncompete agreements; it was added as a complementary remedy. The proposed rule could therefore undermine the public policy embodied in the DTSA and furthered by enforcement efforts under it, policies that are key to both the domestic economy, international trade, and international relations, as reflected in the annual statements of the Intellectual Property Enforcement Coordinator (*see*, *e.g.*, https://www.whitehouse.gov/wp-content/uploads/2023/04/FY22-IPEC-Annual-Report_Final.pdf), various Department of Justice reports (*see*, *e.g.*, https://www.justice.gov/archives/iptf/pro-ip-act-reports), and the legislative history of the DTSA.

3 *See infra* at n.123, n.176, p. 44 & n.177.

4 Non-Compete Clause Rule, 88 Fed. Reg. 3532-33 (Jan. 19, 2023) (NPRM at pp. 185-86).

legitimate business interests. This includes not just nonsolicitation agreements, but nondisclosure agreements, which are often a predicate to trade secret protection under trade secret laws. Accordingly, the result will be even more uncertainty and less protection, while driving even more traditional restrictive covenant litigation toward the only remaining tool: costly and unpredictable trade secret litigation.

Third, the extremely narrow exception to the noncompete ban for the sale of a business (or interest in a business) will likely erode the vibrant small-business merger and acquisition environment that is vital to sellers, buyers, estate planners, and the economy of many states, including, in particular, California.[5]

Fourth, to the extent that the Commission relies on the available academic research, two things are important to note: First, the more research is conducted, the more we learn that prior research is actually flawed in ways that undermine its reliability, especially for making broad policy decisions. Second, to the extent that the Commission intends to rely on the economic literature, there are several studies that evidence how banning noncompetes will adversely impact consumers – the very people the Commission is attempting to protect.

In light of these concerns, we urge the Commission to consider what would happen if its assumptions are wrong. While the Commission's objectives are laudable, we believe the proposed rule is the wrong means to accomplish those objectives. We believe that the outcome could be devastating to companies, workers, and the economy. Accordingly, we encourage the Commission (if it were to take any action) to proceed cautiously, incrementally, and do the minimum necessary to test its hypotheses about the impacts of a proposed ban.

We note in this regard that the Commission relies on a study establishing that 53 percent of all people bound by noncompetes are hourly workers.[6] Based on this estimate alone, the Commission could address more than half of the impacted population and accomplish much of its objective by narrowing a proposed ban to apply only to hourly workers, *i.e.*, the people who the Commission believes are most in need and likely to benefit most from it.[7] Further, to deal with the risk that employers may ignore a rule that does not include a complete ban,[8] the

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5 Even California's ban on noncompetes allows for a much broader exception in the context of the sale of a business than the proposed rule would allow. *See infra* at 49 & n.191.

6 Non-Compete Clause Rule, 88 Fed. Reg. at 3485 (NPRM at p. 16).

7 Taking this tailored approach will also provide the type of "natural experiment" needed to enable direct research into the effects a ban would actually have in the workplace.

8 Non-Compete Clause Rule, 88 Fed. Reg. at 3485 (NPRM at p. 16). Indeed, as the Commission notes, certain studies indicate that noncompete agreements are used with equal frequency even in states that

Commission can address another large swath of any perceived problem by proposing legislation making it unlawful (subject to monetary penalties) to employ a noncompete for such hourly workers.[9]

DISCUSSION[10]

I. OUR BACKGROUND

The 102 signatories to this submission are lawyers and paralegals from across the country with extensive relevant experience representing clients (from Fortune 50 companies to "mom and pop" shops to individual workers) in countless trade secret, noncompete, and other restrictive covenant matters on all sides of these disputes. Our work spans most, if not all, states in the country and, as a result, this submission incorporates a national perspective and scope.

Among the signatories are some of the country's leading authorities in the inextricably-related laws of restrictive covenants and trade secrets. Through our work helping thousands of clients, we have each seen first-hand the varied approaches that companies take to protecting their information, customer relationships, and other lawfully protectable business interests; the relative difficulties courts at all levels have with administering trade secret and restrictive covenant claims; the benefits and detriments of noncompetition agreements and other restrictive covenants; and the practical, real-world impact such agreements have on companies and workers alike.

Further, this letter includes input from, and is signed by, some of the same people who have been involved in state legislative efforts around the country and who provided information relied upon by much of the academic scholarship, as well as by the U.S. Department of the Treasury and the White House in connection with President Obama's 2016 investigation into

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prohibit them entirely. *Id*. at 16. Such a finding, of course, calls into question the reliability of any study that uses California as a comparator.

9 The approach of employing monetary penalties for companies using noncompete agreements in violation of the law has recently been adopted by several legislatures. *See* Colo. Rev. Stat. § 8-2-113(8)(B) (Colorado); 820 I.L.C.S. § 90/30(d) (Illinois); Me. Rev. Stat. Ti. 26, c. 7, § 599-A(6) (Maine); RCW § 49.62.80 (Washington); D.C. Code § 32-581.04 (Washington, D.C.).

10 To avoid burdening the Commission with needless repetition, we have omitted from this submission information provided in our prior submissions, unless it directly relates to matters raised by the Commission in the NPRM. However, much of the omitted information remains relevant to the Commission's work, and we incorporate the prior submissions by reference. They are available at https://www.regulations.gov/comment/FTC-2021-0057-0028.

noncompetes,[11] and one who was a participant in the small working group convened by President Obama's Administration to develop the resulting Call to Action on Non-Compete Agreements.[12]

A brief biography of each of the signatories (with a link to the individual's full on-line biography) is provided as *Appendix A*.

The signatories believe that recognizing and addressing the issues raised by this submission is critical to reaching a positive and fair result, and one which would not trigger unexpected and unwanted consequences. We thank you for your consideration of the matters addressed in this submission.[13]

II. LINGERING CONFUSION ABOUT THE USE, ENFORCEMENT, AND IMPACT OF NONCOMPETES

Although we previously identified many of the common misconceptions about noncompetes, some persist and new ones have surfaced. We address below the new and more pernicious ones that have been referenced by the Commission, President Biden, or members of Congress.[14]

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11 The resulting reports were: *Non-compete Contracts: Economic Effects and Policy Implications*, U.S. Department of the Treasury, Office of Economic Policy (March 2016), available at https://www.treasury.gov/resource-center/economic-policy/Documents/UST Non-competes Report.pdf; *Non-Compete Agreements: Analysis of the Usage, Potential Issues, and State Responses*, White House (May 2016), available at https://obamawhitehouse.archives.gov/sites/default/files/non-competes_report_final2.pdf.

12 *State Call to Action on Non-Compete Agreements*, Obama Administration (2016), available at https://obamawhitehouse.archives.gov/sites/default/files/competition/noncompetes-calltoaction-final.pdf.

13 As with past submissions, we note that references in this letter to specific companies, individuals, cases, or matters are for illustrative purposes only. No signatory to this letter is endorsing any statement as to any such person, company, product, case, or matter outside the context of this letter, nor doing so as counsel for, or as an agent of, any such company or any company competitive thereto. Nothing in this submission is an admission by or on behalf of any person, company, or client, or any party with interests adverse thereto.

14 We discuss additional misunderstandings in three other places. First, we address some later in this submission, to the extent they are responsive to the Commission's specific questions. Second, we address others in our July 14, 2021 letter (the "July 2021 Submission") to the Commission and Mr. Zach Butterworth, Director of Private Sector Engagement Executive Office of the President, in response to the President's July 9, 2021 Executive Order. The July Submission is attached as Appendix 1 to our December 20, 2021 submission to the Commission and Department of Justice (the

Misconception: Noncompetes Prevent Employees from Working or Quitting

Some commentators claim broadly that noncompetes prevent employees from working or even quitting a job.[15] This is not correct. No state in the union currently allows an employer to use a noncompete agreement to be used simply to prevent an employee from quitting their job, working in their field, or using their general skills and knowledge.[16] Rather, as applied by the courts, noncompetes restrict only competition that puts the protectable information or other recognized "legitimate" business interest of a former employer at risk.[17]

Even when restricted by a noncompete, employees remain free to resign, to leave for higher-paying jobs, to leverage an offer to increase earnings at their current employer, and to work for a company where they will use their general skill and knowledge.[18] What they cannot do is use or put at risk their former employer's trade secrets or other recognized legitimate business interests on behalf of a new employer. Accordingly, when used properly, noncompetes prevent *unfair* competition.[19]

"December 2021 Submission"), a copy of which is available at https://www.regulations.gov/comment/FTC-2021-0057-0028. Third, we address still others in more detail in *Misconceptions In The Debate About Noncompetes*," Law360 (July 8, 2019) (reprinted on *Fair Competition Law* as "*Correlation Does Not Imply Causation: The False Comparison of Silicon Valley and Boston's Route 128*, available without subscription at https://www.faircompetitionlaw.com/2019/07/09/correlation-does-not-imply-causation-the-false-comparison-of-silicon-valley-and-bostons-route-128/).

15 Non-Compete Clause Rule, 88 Fed. Reg. at 3522 (NPRM at p. 162).

16 A noncompete prevents someone from working for a competitor in a role in which they would likely use trade secrets or otherwise engage in unfair competition. Such a restriction can, of course, have collateral effects, preventing what would otherwise be lawful competitive activities (depending on the nature of the planned role and extent of the noncompete restriction as applied). But a noncompete can never lawfully be used where it is not necessary to protect those other interests. To the extent some companies may use noncompetes for improper purposes, it is those uses that should be targeted and curbed, not the legitimate uses of noncompetes.

17 *Cleaning up overly broad noncompetes: the "Janitor Rule,"* available at https://faircompetitionlaw.com/2018/07/04/cleaning-up-overly-broad-noncompetes-the-janitor-rule/.

18 The signatories to this letter have represented individual clients involved in many such situations.

19 We address below in the "Recommendations for a Fair Approach" section below (at p. 61) an approach to prevent abuses of noncompetes.

Misconception: Noncompetes Block Employment at a Competing Employer

The Commission states that "[a] non-compete clause is a contractual term between an employer and a worker that typically blocks the worker from working for a competing employer, or starting a competing business, within a certain geographic area and period of time after the worker's employment ends."[20] But most states prohibit noncompetes from operating that broadly.[21] Instead, most states require noncompetes to be narrowly tailored to prevent a worker only from performing the type of work for a competitor (or startup) that would give rise to "unfair" competition, *i.e.*, roles in which the employee would threaten the former employer's trade secrets, and depending on the state, confidential information, customer relationships, and other protectable business interests.[22] Most everything else is "ordinary competition," which noncompetes, when used properly, cannot prevent.[23] Accordingly, with limited exceptions, noncompetes must not preclude someone from working for a company simply because the company is a competitor.[24]

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[20] Non-Compete Clause Rule, 88 Fed. Reg. at 3482 (NPRM at p. 2).

[21] *See*, *e.g.*, 820 I.L.C.S. §§ 90/1 et seq. (Illinois); M.G.L. c. 149, § 24L(b)(vi) (Massachusetts); *see also* Russell Beck, *Employee Noncompetes, A State-by-State Survey* ("*50 State Noncompete Survey*"), available at https://www.beckreedriden.com/50-state-noncompete-chart-2/. Originally drafted in 2010, this chart is updated periodically; the most current version (February 11, 2023, as indicated on the chart) is attached for the Commission's convenience as Appendix B. Having its origins in a 1974 case in Pennsylvania (*Trilogy Associates, Inc. v. Famularo*, 314 A.2d 287 (Pa. 1974)), this concept is sometimes referred to as the "janitor rule," getting its name from the concept that a noncompete with an unlimited scope would impermissibly prevent an employee from accepting a job that poses no unlawful threat to the employer's legitimate business interests, *i.e.*, a role such as a janitor. *See* Russell Beck, *Cleaning up overly broad noncompetes: the "Janitor Rule,"* available at https://faircompetitionlaw.com/2018/07/04/cleaning-up-overly-broad-noncompetes-the-janitor-rule/.

[22] *50 State Noncompete Survey* (Appendix B).

[23] *See*, *e.g.*, *Automile Holdings, LLC v. McGovern*, 483 Mass. 797, 812 (2020) ("[P]rotection from 'ordinary competition' is not a legitimate business interest in any context, and a restrictive covenant "designed solely for that purpose will not be enforced.'").

[24] We recognize that noncompetes can sometimes have chilling effects, causing workers to believe that they are restricted, even when their noncompete cannot lawfully prevent the employee from engaging in the intended new employment. We suggest ways to mitigate those impacts with the "Recommendations for a Fair Approach" section below (at pp. 61-68).

Unsupported: Companies Use Noncompetes for Low-Wage Workers Primarily to Restrain Wages

There is an oft-repeated concern that companies use noncompetes for low-wage workers primarily to restrain wages. For example, in announcing his "Executive Order on Promoting Competition in the American Economy," President Biden expressed that noncompetes are used "for ordinary people . . . for one reason: to keep wages low. Period."[25] There is, however, no data of which we are aware to support contentions of rampant misuse for unlawful reasons. It should be recognized in that regard that employers have been using noncompetes for low-wage workers for over a hundred years[26] – well before any research existed suggesting that wage suppression might be effect of noncompetes.[27]

Oversimplification: Noncompetes Pit Employees Against Employers

People generally believe that one must fall on the side of employers or employees when it comes to noncompetes. This is an oversimplification.

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[25] Available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/. Senator Chris Murphy made similar remarks on the Senate Floor on February 1, 2023; a video of Senator Murphy's remarks is available at https://www.youtube.com/watch?v=m2q77hhPm0E (at 6:26). Senator Murphy went on to state that the use of noncompetes for higher-income workers is "about a company who doesn't want competitors." *Id.* (at 6:41). While these objectives (and other improper objectives) may sometimes be the goal, addressing the abuses can be accomplished with regulation targeted specifically to those issues, as opposed to a more blunt ban of all noncompetes that would eliminate even those used for legitimate business purposes, including (as identified by President Biden and President Obama before him) to protect trade secrets.

[26] *See*, *e.g.*, *J. & J.G. Wallach Laundry System v. Fortcher*, 191 N.Y.S. 409, 116 Misc. 712 (N.Y. Supr. Ct. 1921) (noncompete enforced against laundry delivery driver); *Eureka Laundry Co. v. Long*, 146 Wis. 205, 131 N.W. 412 (Wisc. 1911) (same); *Simms v. Patterson*, 55 Fla. 707, 46 So. 91 (Fla. Sup. Ct. 1908) (noncompete used for a "salesman and shipping clerk").

[27] It bears noting that, assuming that wage suppression may be a consequence of noncompetes, a number of states now require advance notice of a noncompete, which, according to the results of a well-regarded study, will (among other things) directly address the concerns of President Biden (as well as Senator Murphy and others) about the potential adverse impact of noncompetes on wages – as well as address the general unfairness issues associated with showing up to work on the first day to only then learn that a noncompete is required. *See* Evan Starr, J.J. Prescott, and Norman Bishara, *Noncompete Agreements in the U.S. Labor Force* (revised April 5, 2023), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714.

In the experience of the signatories to this submission, it is very often the peers of the departed employee who are the most eager to enforce the noncompete against the departed employee. This is largely because noncompetes are designed to protect not just the company, but the company's revenue-generating intellectual property assets and customer goodwill, and in so doing, they also protect the employees who remain behind. For example, if salespeople were permitted to compete and take clients, the administrative and service staff who support those roles would have no business to support. Without that business, those administrative and support personnel – typically, low- and middle-wage workers – would be the ones to suffer in the form of losing their jobs or receiving a reduction in compensation.

Further, because noncompetes provide the assurance that a company's information, processes, and approaches foundational to its economic existence will not be used against it until a reasonable amount of time has passed in which to anticipate, prepare for, and avoid the consequences of such use, employers and employees have a greater incentive and ability to develop and share such learning with new coworkers.[28] Accordingly, noncompetes help align the interests of employers and employees benefitting from a dynamic labor market with incentives to expand employee rosters, meaning that new positions of greater access and influence are more, not less, likely in a system that allows for reasonable noncompete agreements.

III. Responses To Requests For Specific Input

The Commission has sought input on virtually every aspect of its NPRM. However, we have focused our responses on just those requests for which we have particular experience and expertise, and therefore can add the most value to the Commission's work.

The Law Of Noncompetes

Request: The Commission seeks input on its description of noncompete clauses in Part II.A of the NPRM.[29]

Comment: While the term "noncompete" does not actually apply to all of the identified agreements (most, though still not all, are more properly called "restrictive covenants"), the Commission's summary of the various types of agreements is correct. (Later portions of the

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28 *See* Raffaele Conti, *Do non-competition agreements lead firms to pursue path-breaking inventions?* (the "*Innovation Study*"), 35:8 Strategic Management Journal 1230 (Aug. 2014), available at https://www.jstor.org/stable/24037307.

29 Non-Compete Clause Rule, 88 Fed. Reg. at 3484 (NPRM at p. 12).

NPRM include mistakes about how the law applies to those agreements and how they work in practice. Those errors are addressed elsewhere in this submission.)

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Request: The Commission seeks comment on its summary in Part II.C of the law of noncompetes.[30]

Comment: The Commission's summary of noncompete law[31] is largely correct, although it does contain some errors and inaccuracies, including the following[32]:

- "Massachusetts and Oregon have enacted 'garden leave' provisions, which require employers to compensate workers during the post-employment period in which the workers are bound by the non-compete clause."[33]

  This is incorrect. Neither state *requires* garden leave.

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[30] Non-Compete Clause Rule, 88 Fed. Reg. at 3497 (NPRM at pp. 60-61).

[31] We do not comment on the antitrust aspects, other than, as noted below, we are unaware of a single case that has invalidated a routine employee noncompete on the ground that it is an antitrust violation (or constituted an unfair or deceptive practice under Section 5 of the Federal Trade Commission Act). *See, e.g.*, *Cole v. Champion Enterprises, Inc.*, 496 F. Supp. 2d 613, 635 (M.D.N.C. 2007) ("[I]t appears that no . . . noncompetition agreement has ever been held to violate the Sherman Act. . . . Rule of reason analysis under antitrust laws must not be confused with reasonableness analysis under the common law. Rule of reason analysis tests the effect of a restraint of trade on *competition*. By contrast, whether a noncompetition agreement is reasonable depends upon its effect on the parties, the *competitors*, as it were. The two standards are not directly related.") (emphasis in original; citations omitted).

[32] Earlier in the NPRM, the Commission identifies eight different cases, seemingly as examples of instances in which the use of noncompetes was somehow improper. Non-Compete Clause Rule, 88 Fed. Reg. at 3483-84 (NPRM at pp. 7-10). However, in some of those cases, the appellate courts did *not* find that the noncompetes were improper. For example, in *AK Steel Corp. v. ArcelorMittal USA, LLC*, 55 N.E.3d 1152, 1156-58 (Ohio Ct. App. 2016), a three-judge appellate panel found that the trial court *erred* by refusing to enforce the full duration of the noncompete. Similarly, in *Intermountain Eye & Laser Ctrs. P.L.L.C. v. Miller*, 127 P.3d 121, 123 (Idaho 2005), the Supreme Court of Idaho found that the trial court *erred* by finding the noncompete unenforceable. Accordingly, we identify this issue, to the extent that the Commission relies on the sampling as examples of impropriety.

[33] Non-Compete Clause Rule, 88 Fed. Reg. at 3494 (NPRM at p. 51).

Despite widespread confusion, Massachusetts law does not require "garden leave," nor does it require any compensation during the restricted period.[34] Garden leave is merely an option, but parties are free to support a noncompete with "other mutually-agreed upon consideration."[35]

Similarly, with one limited exception, Oregon also does not require garden leave or other payment during the restricted period.[36] The exception is that garden leave is required for a noncompete used with an employee "employed as an on-air talent by an employer in the business of broadcasting . . . ."[37] Other than that, noncompetes may be used without garden leave.

Oregon does, however, *permit* the use of "garden leave" to avoid the prohibition on using noncompetes for low-wage workers and certain other otherwise-exempt employees.[38] In this regard, Oregon's law is like Illinois's, Washington's, and Nevada's (and possibly Massachusetts'),

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34 *See* M.G.L. c. 149, § 24L(b)(vii); *Cynosure LLC v. Reveal Lasers LLC*, 2022 WL 18033055, at *9 (D. Mass. Nov. 9, 2022) ("as required by the MNAA, the Equity Agreement is . . . supported by consideration distinct from continued employment, . . . and has 'mutually-agreed upon consideration,' that is, the stock options, in lieu of a 'garden [leave] clause' as permitted by the MNAA, *id*. at § 24L(b)(vii)"); *Nuvasive, Inc. v. Day*, 2019 WL2287709, at *4 (D. Mass. May 29, 2019) (approving in dicta the following: "In consideration of my engagement by the Company, the compensation I . . . receive from the Company (including for example monetary compensation, Company goodwill, confidential information, restricted stock units and/or specialized training)").

35 *See* M.G.L. c. 149, § 24L(b)(vii); *Cynosure LLC*, 2022 WL 18033055, at *9; *Nuvasive, Inc. v. Day*, 2019 WL2287709, at *4l; Russell Beck, *Garden Leave Is Not a Nonconcompete under Massachusetts Law*, available at https://faircompetitionlaw.com/2020/04/20/garden-leave-is-not-a-nonconcompete-under-massachusetts-law/; Russell Beck & Erika Hahn, *Consideration Happens, But Not During Garden Leave*, Massachusetts Lawyers Weekly (Jan. 2, 2020), available at https://masslawyersweekly.com/2020/01/02/consideration-happens-but-not-during-garden-leave/ (a free version is available at https://faircompetitionlaw.com/2020/01/06/massachusetts-noncompete-consideration-happens-but-not-during-garden-leave/).

36 OR ST § 653.295.

37 OR ST § 653.295(2)(c).

38 OR ST § 653.295(7).

allowing "garden leave" to be used to avoid otherwise-applicable restrictions imposed by the state's noncompete statute.[39]

- "By their express terms, non-compete clauses restrict a worker's ability to work for a competitor of the employer—for example, by accepting a job with a competitor or starting a business that would compete against the employer."[40]

  This can be true, but it is not entirely accurate. As explained above,[41] in most states, the scope of a noncompete cannot be so broad as to prevent a worker from accepting a job at a competitor without qualification.

  Perhaps more importantly, foundational to the Commission's concern is its conclusion that "[n]on-compete clauses also restrict rivals from competing against the employer to attract their workers."[42] While in theory this may be true, in practice it is not. Employers and employees regularly negotiate

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[39] *Illinois*: 820 ILCS 90/10(c) ("No employer shall enter into a covenant not to compete . . . with any employee who an employer terminates or furloughs or lays off as the result of business circumstances or governmental orders related to the COVID-19 pandemic or under circumstances that are similar to the COVID-19 pandemic*, unless enforcement of the covenant not to compete includes compensation equivalent to the employee's base salary at the time of termination for the period of enforcement minus compensation earned through subsequent employment during the period of enforcement*." (emphasis added)). *Washington*: RCW §§ 49.62.020(1)(c) ("A noncompetition covenant is void and unenforceable against an employee . . . [i]f the employee is terminated as the result of a layoff, *unless enforcement of the noncompetition covenant includes compensation* equivalent to the employee's base salary at the time of termination for the period of enforcement minus compensation earned through subsequent employment during the period of enforcement." (emphasis added)). *Nevada*: Nev. Rev. Stat. § 613.195(5) ("If the termination of the employment of an employee is the result of a reduction of force, reorganization or similar restructuring of the employer, a noncompetition covenant is only enforceable during the period in which the employer is paying the employee's salary, benefits or equivalent compensation, including, without limitation, severance pay."). *Massachusetts*: Though not as clear in the Massachusetts statute, the law seems to provide a similar benefit of using "garden leave clauses." *See* Russell Beck, *Garden Leave Is Not a Noncompete under Massachusetts Law*, available at https://faircompetitionlaw.com/2020/04/20/garden-leave-is-not-a-nonconcompete-under-massachusetts-law/.

[40] Non-Compete Clause Rule, 88 Fed. Reg. at 3500 (NPRM at p. 73). As the Commission later qualifies, "the non-compete clause will prevent the worker from accepting a new job within the scope of the non-compete clause." *Id*. at 3501 (NPRM at p. 75).

[41] *See supra* at p. 7 (*Misconception: Noncompetes Block Employment at a Competing Employer*).

[42] Non-Compete Clause Rule, 88 Fed. Reg. at 3500 (NPRM at p. 73).

at the time of the employee's departure to narrow some or all aspects of the restrictions (duration, geographic reach, and scope of the prohibited job functions). In our collective experience, well over 90 percent of these matters are resolved quickly and reasonably amicably, without the need for judicial intervention. Instead, parties regularly agree to "guardrails" for employees and their new employers to follow during the restricted period.[43]

- "Section 5 reaches incipient violations of the antitrust laws—conduct that, if left unrestrained, would grow into an antitrust violation in the foreseeable future."[44]

  We are unaware of any cases finding that the use of employee noncompetes that comply with state law constitutes an antitrust violation or, if left unrestricted, would likely grow into one.[45] And, while (as the

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[43] The distinction between theory and practice highlights some of the problems that prevail in the studies (discussed elsewhere in this submission) and calls into question the perceived need for federal regulation of noncompetes. Of course, it bears mention that low-wage workers are the ones who are likely not to avail themselves of this practical resolution, which is an issue currently being tackled by many states. To date, 11 states and Washington, D.C. have each rejected the concept of a full ban, and have instead imposed wage thresholds or related compensation criteria (as well as industry-specific exemptions) to prevent further use of noncompetes with low-wage and unskilled workers. *See* Russell Beck, *New Noncompete Wage Thresholds for 2023*, *available at* https://faircompetitionlaw.com/2023/02/06/new-noncompete-wage-thresholds-for-2023/. Idaho does not have a minimum threshold, but noncompetes can only be used with "key" employees or independent contractors. Although neither "key employee" nor "key independent contractor" is defined, there is a rebuttable presumption that an employee or independent contractor who is among the highest paid five percent of the employer's employees or independent contractors is a "key employee" or a "key independent contractor." *See* Idaho Code § 44-2704(5).

[44] Non-Compete Clause Rule, 88 Fed. Reg. at 3499 (NPRM at p. 68).

[45] We are aware only of decisions that hold or suggest the opposite. *See, e.g.*, *Newburger, Loeb & Co. v. Gross*, 563 F.2d 1057, 1082 (2d Cir. 1977) ("In certain cases, postemployment restraints do serve legitimate business purposes: they prevent a departing employee from expropriating his employer's secrets and clientele. Consequently, we have held that a per se ban on all such restrictive covenants would not be warranted.") (citing *Bradford v. New York Times Co.*, 501 F.2d 51, 59 (2d Cir. 1974) ("Not only has the appellant failed to supply us with any case holding an employee restrictive covenant to be a per se violation, but no court applying the rule of reason has ever held such a contract violative of section 1 of the Sherman act.")); *Alders v. Afa Corp. of Fla.*, 353 F. Supp. 654, 656 (S.D. Fla. 1973), *aff'd,* 490 F.2d 990 (5th Cir. 1974) ("The Plaintiff argues that, because the covenant not to compete on its face restrains him from competing with AFA, it is a contract in restraint of trade, and constitutes a per se violation of the Sherman Act, Section 1. This argument is

> Commission has noted) "courts have condemned restrictive or exclusionary conduct under Section 5 based not on the facial unfairness of the conduct, but on the impact of the conduct on competition,"[46] courts have not and do not so condemn noncompetes.

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Request: The Commission also seeks in Part II.C "comment on the extent to which employers use choice-of-law provisions to evade the laws of states where non-compete clauses are relatively less enforceable."[47]

Comment: A complete answer to this inquiry requires empirical research. However, based on the collective experience of the undersigned, employers do consider choice of law in connection with noncompete agreements, just as they do (and should) with respect to any contract where more than one state's law could apply. For an employer with employees in multiple states, identifying the applicable law up front provides certainty and predictability to

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totally without merit. Ever since the decision in *United States v. Addyston Pipe & Steel Co*., 85 F. 271 (6th Cir. 1898), *modified*, 175 U.S. 211 (1899), it has been recognized that the validity of covenants not to compete turns upon the reasonableness of the restraint in each case.") (citations omitted); *Audiology Dist., LLC v. Hawkins,* 2014 WL 3548833, at *5 (N.D.W. Va. July 17, 2014) ("As '[i]t is axiomatic that an employee's covenant not to compete with his employer is not a per se violation of antitrust law,' the rule of reason must be applied in this case.") (quoting *Reddy v. Cmty. Health Found. of Man*, 171 W. Va. 368, 372 (1982)); *Consultants & Designers, Inc. v. Butler Serv. Group*, 720 F.2d 1553, 1560 (11th Cir.1983) (calling the argument that non-compete agreements should be a per se antitrust violation "both bizarre and frivolous."); *Aydin Corp. v. Loral Corp*., 718 F.2d 897, 900 (9th Cir. 1983) ("Employee covenants not to compete or interfere with the employer's business after the end of the employment relationship should not be tested under the per se rule. Such covenants often serve legitimate business concerns such as preserving trade secrets and protecting investments in personnel."); *Haines v. VeriMed Healthcare Network, LLC*, 613 F. Supp. 2d 1133, 1137 (E.D. Mo. 2009) ("Haines' argument that this non-compete agreement should form the basis for a new per se violation of antitrust laws is completely without merit. 'Legitimate reasons exist to uphold noncompete covenants even though by nature they necessarily restrain trade to some degree. The recognized benefits of reasonably enforced noncompetition covenants are now beyond question.'") (quoting *Lektro-Vend Corp. v. Vendo Co*., 660 F.2d 255, 265 (7th Cir.1982)); *Snap-On Tools Corp. v. FTC*, 321 F.2d 825, 837 (7th Cir. 1963) ("Restrictive clauses of this kind are legal unless they are unreasonable as to time or geographic scope; but even if this restriction is unreasonable as to geographic scope, we are not prepared to say that it is a per se violation of the antitrust laws.").

46 Non-Compete Clause Rule, 88 Fed. Reg. at 3500 (NPRM at p. 73).

47 Non-Compete Clause Rule, 88 Fed. Reg. at 3497 (NPRM at pp. 60-61).

both the employer and its employees about the rules that will govern the noncompete. It is not just a corporate interest; clarity and predictability benefit everyone, including courts asked to enforce the agreements.

The choice is not absolute, however. Employers cannot, for example, simply select the law of a particular state because it is generally regarded as employer-friendly. Nor could they expect courts to defer to such a choice. Rather, applicable law in most states typically requires that the chosen law have a significant connection to the matter. That means that employers generally have only three options: the state in which the company is headquartered (or has its principal place of business), the state in which it is incorporated, or the state in which the employee (and likely the business) is located. Accordingly, choice of law is more about whether a single standard will apply, as opposed to which standard or standards will apply. As to the single standard, there is a significant benefit to knowing that the same agreement (and the interests it protects) will be governed by the same standards regardless of what state one of the parties happens to reside in. For this reason, employers often choose a law that may be less favorable to them than the law that would otherwise apply in the states in which some of their employees happen to live.

Nevertheless, just because the parties selects a particular state's law, does not mean that a court will accept it. Most states apply the Restatement (Second) of Conflict of Laws, sections 187 and 188, to choice of law provisions. This standard accounts for the "fundamental public policy" of a state that may have a "materially greater interest" in the dispute. As a result, choice of law provisions are often rejected under this analysis when states with strict noncompete laws have a "materially greater interest" than the chosen state.[48]

In addition, a growing number of states have begun to further limit choice of law options. Specifically, some states now expressly require that, regardless of what law may be chosen by the parties in their contract, employees are still entitled to receive the protections afforded by the noncompete law of the state in which they work or reside.[49]

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[48] *See*, *e.g.*, *Hightower Holding, LLC v. Gibson*, C.A. No. 2022-0086-LWW (Del. Ch. Feb. 9, 2023) (refusing to enforce Delaware choice of law provisions that would conflict with Alabama's fundamental public policy against enforcing noncompete agreements against "professionals").

[49] *See* Cal. Lab. Code § 925 (California); C.R.S. § 8-2-113(6) (Colorado); M.G.L. c. 149, § 24L(e) (Massachusetts); RCW § 49.62.090 (Washington). Louisiana has had such a requirement since 1999. *See* R.S. 23:921.

Request: The Commission also seeks input in Part II.C about "the extent to which a uniform federal standard for non-compete clauses would promote certainty for employers and workers."[50]

Comment: There is no doubt that a single, unified standard could achieve a kind of certainty.[51] A wholesale ban would certainly accomplish that objective. But anything short of a complete ban would not. California, North Dakota, Oklahoma, and (to some extent) Nebraska will remain the outliers that they are currently. Accordingly, given the obviousness of the answer, we take the Commission's question to be seeking deeper input about whether any federal overlay would be justified by its promotion of increased uniformity and certainty over the patchwork of state laws currently in place and continuing to evolve.

As a threshold matter, if the Commission (as opposed to Congress) were to set a standard,[52] it could never achieve complete uniformity or certainty, as the Commission's regulatory reach does not include all entities that use noncompetes. This asymmetry of application, *i.e.*, application of the standard to one group of entities (for-profit companies) and not to another (not-for-profit companies), could create a significant imbalance leading to severe adverse unforeseen consequences.[53]

Nevertheless, even as to the subset of entities over which the Commission has regulatory authority, the advisability of a uniform standard depends on what standard is imposed.[54] But

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50 Non-Compete Clause Rule, 88 Fed. Reg. at 3497 (NPRM at p. 61).

51 As noted above, a single standard is part of the reason that companies often select a single state's law to govern noncompetes with employees in multiple states. However, as discussed above, the imposition of a nationwide ban would result in much more trade secret litigation, which is inherently uncertain.

52 As noted elsewhere in this submission, the signatories are aware that a significant legal issue has been raised concerning whether the Commission has authority to issue the proposed rule; we express no opinion on that issue in this submission.

53 As discussed during the Commission's February 16, 2023 public forum, this issue is particularly acute in the healthcare industry, where there are both for profit and not-for-profit hospital and healthcare systems, many of which compete for talent in the same markets, that would be subject to different rules. *See* the American Hospital Association's comments addressing this issue in detail, available at https://www.aha.org/system/files/media/file/2023/02/aha-comments-on-ftc-proposed-non-compete-clause-rule-letter-2-22-23.pdf.

54 Possible standards are discussed below in the "*Possible Balanced Guidance or Regulations*" section, at pp. 62-68. We note that some signatories may view any federal intervention as misplaced. We note too that this submission addresses neither whether the Commission or Congress has authority to intervene, nor (if both do) which of the two should exercise such authority.

whatever the standard, unless it either adopts the most restrictive aspects of the laws in each of the 47 states (and Washington, D.C.) or preempts all state regulation, it still will not provide complete uniformity and the certainty that would come with uniformity. This is because, absent preemption of state law, any rule will provide uniformity and certainty somewhere along the continuum from total uniformity and certainty (as would arise with a ban) to none (adopting the least restrictive standard).

In addition, achieving the objective of certainty through promulgation of a uniform standard (whatever that standard might be) would take years. First, there is no available private right of action or delegation of enforcement to state Attorneys General. Second, interpretation of federal law can vary significantly from one circuit to another, and the identification of so-called "circuit splits" for resolution by the Supreme Court often takes many years to mature. As a consequence, any "certainty" benefits would not arise for many years, *i.e.*, after the Commission's enforcement program has developed a broad baseline of acceptable conduct cutting across all industries and the Supreme Court has resolved all materially different interpretations and rulings.

ACADEMIC LITERATURE

Request: The Commission seeks input on its "description of the empirical evidence relating to non-compete clauses and their effects on competition" in Part II.B.[55] The Commission also requests "additional data that could inform the Commission's understanding of these effects."[56]

Comment: We understand that the Commission is concerned that "the existing legal frameworks governing non-compete clauses—formed decades ago, without the benefit of [the academic literature][57]—allow serious anticompetitive harm to labor, product, and service

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55 Non-Compete Clause Rule, 88 Fed. Reg. at 3493 (NPRM at p. 48).

56 Non-Compete Clause Rule, 88 Fed. Reg. at 3493 (NPRM at p. 48).

57 This premise is not entirely accurate. While many of the laws were indeed formed decades ago, many others were passed within just the past decade – and therefore had the benefit of the emerging research. For example, last year alone, five states plus Washington, D.C. made nine changes to their noncompete laws, including three (in Colorado, Illinois, and Washington, D.C.) that completely overhauled existing laws. In just the last eight years, there have been 42 legislative changes in 27 states (more than half of all states) plus another in D.C., as well as other changes through the courts. *See Almost 60 percent of states updated their noncompete laws in the last decade*, available at https://faircompetitionlaw.com/2023/02/12/noncompete-law-changes-in-the-last-decade-updated-february-12-2023/. Similarly, the common law has evolved as well, and that is part of its strength. For example, in New York, the dominant rules regarding noncompetes have been substantially revised by the courts over the course of the past 25 years. Other states, like Montana, South Carolina,

markets to go unchecked."[58] Accordingly, the "Commission seeks to ensure competition policy is aligned with the current economic evidence about the consequences of non-compete clauses."[59]

We recognize that others with academic research expertise, such as Professors Evan Starr,[60] Jonathan Barnett,[61] Ted Sichelman,[62] and Matt Marx,[63] have identified many of the overarching limitations of the literature in general, as well as specific problems with many of the studies.[64] We also recognize that much of the research that has been conducted[65] was the best available work on the subject at the time it was undertaken. Accordingly, we identify below only certain of the limitations to highlight the need for caution in relying on the literature in ways that can cause severe unforeseen, unintended, adverse consequences to companies, workers, and the economy.

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and Texas, have done likewise. And, just last year, the Supreme Courts of Wyoming and Hawaii both also made substantial changes.

58 Non-Compete Clause Rule, 88 Fed. Reg. at 3482 (NPRM at p. 3).

59 Non-Compete Clause Rule, 88 Fed. Reg. at 3482 (NPRM at p. 3).

60 https://www.rhsmith.umd.edu/directory/evan-starr.

61 https://gould.usc.edu/faculty/?id=397.

62 https://www.sandiego.edu/law/about/directory/biography.php?profile_id=3093.

63 https://dyson.cornell.edu/faculty-research/faculty/mtm83/.

64 *See*, *e.g.*, Donna S. Rothstein and Evan Starr, *Mobility Restrictions, Bargaining, and Wages: Evidence from the National Longitudinal Survey of Youth 1997* (November 30, 2021), *available at* *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3974897*; Jonathan Barnett & Ted Sichelman, THE CASE FOR NONCOMPETES," 87 U. of Chicago L.R. 953 (July 22, 2020), *available at* *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3516397*; Matt Marx, *Science Policy Research Report: Employee Non-compete Agreements* (2018), *available at* *https://sih.berkeley.edu/wp-content/uploads/2018/06/Employee-Non-compete-Agreements.pdf*. *See also* Alan J. Meese, *Don't Abolish Employee Noncompete Agreements*, 57 WAKE FOREST L. REV. 631 (2022).

65 Much of the empirical research in this area has been undertaken by leading researchers such as Evan Starr, Matt Marx, Michael Lipsitz (https://www.ftc.gov/about-ftc/commissioners-staff/michael-lipsitz), Matthew Johnson (https://sanford.duke.edu/news/matthew-johnson-non-compete-clause-rulemaking/), Kurt Lavetti (http://kurtlavetti.com), Lee Fleming (https://haas.berkeley.edu/faculty/fleming-lee/), and Olav Sorenson (https://www.anderson.ucla.edu/faculty-and-research/strategy/faculty/sorenson), among others.

Limitations Common to Most of the Literature

In a prior submission,[66] we observed that "[w]hile a number of helpful studies have been conducted, this area of research is still in many respects nascent."[67] Further, we identified that "the existing research suffers from certain inherent difficulties (including that it can be hard to isolate direct causal connections to noncompetes), reflects areas of (seeming) inconsistencies, and leaves open many areas in need of additional study."[68] These observations were later highlighted in a short video played during the "Making Competition Work: Promoting Competition in Labor Markets Workshop," conducted by the Commission in conjunction with the Department of Justice.[69]

Our concerns have been validated and further substantiated by recent additional research, information, and analysis, as set forth below. As is becoming increasingly apparent, the more the field is studied, the more it becomes clear that existing research is flawed or otherwise limited in ways that, while understandable, raise serious concerns about their reliability and the wisdom of using them to guide the Commission's strategy to achieve its objectives. Stated differently, although the research is sufficient to identify concerns, it does not provide reliable support for the proposed rule.

Further, even if none of the limitations in the existing research existed, the research suffers from an overall deficiency from a policy-making standpoint: "*none* of the studies examine the wage effects of a full [noncompete] ban."[70] Accordingly, the Commission's proposed rule would make a wholesale change without *any* research to predict what the impact of such a substantial change will do to companies, workers, and the economy.[71] If the

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66 The July 2021 Submission (*see* n.14 *supra*).

67 *Id.* at 29 (footnote omitted).

68 *Id.* Some of the inconsistencies may be the result of the fact that the results were limited to one industry, one type of employee, one geographic region, one timeframe, or other limiting factors, and the results may not be generalizable to others. *See* n.73 *infra*.

69 Available at https://doj-ftc-labor-issues-workshop-2021.videoshowcase.net/making-competition-work-day-1?category=191081 (at 2:37:56).

70 Natarajan Balasubramanian, Jin Woo Chang, Mariko Sakakibara, Jagadeesh Sivadasan, Evan Starr, *Locked In? The Enforceability of Covenants Not to Compete and the Careers of High-Tech Workers* (the "*Hawaii Study*"), 57 THE JOURNAL OF HUMAN RESOURCES 349 at 351 (April 1, 2022) (emphasis added), available at http://jhr.uwpress.org/content/57/S/S349.full.pdf.

71 To date, the studies have been limited to certain states, to certain industries, or certain types of workers. Further, as exemplified by the *Noncompete Agreements in the U.S. Labor Force* study (n.27 *supra*), which was initially posted in 2015, "written" in 2020, published in 2021, and revised in 2023

Commission is correct that suddenly lifting noncompete restrictions would open the floodgates to job changes, one must wonder why simple economic supply-and-demand theory would not prove out: An increase in supply (of available workers) will operate to *reduce* the price (wages) companies need to pay for workers. Alternatively, if, as the Commission surmises, the result would be increased wages, one must wonder why there would not also be a concomitant increase in the already-elevated inflation rate.

The Studies Suffer from a
Critical Lack of Information

As one of the leading researchers in the field, Evan Starr, together with Bureau of Labor Statistics economist Donna Rothstein, identified a little over a year ago, there are "critical" deficiencies with most of the research – the very research understandably relied upon by the Commission in its search for the impacts of noncompetes.[72] Specifically, the study warns of the following:

> A growing stream of academic research has aided this debate [about the pros and cons of noncompetes] by seeking to understand how [noncompetes] and the policies that regulate them influence economic activity. The vast majority of this research examines [noncompete] policies alone, however, without any information on the actual use of NCAs . . . . ***This omission is critical***, given that the limited data we do have on [noncompetes] suggests that they are frequently found in states where they are per se unenforceable . . . , that workers perceive their [noncompetes] to be enforceable when they are not . . . , and that [noncompetes] can limit employee mobility regardless of the law . . . .

(Citations omitted, emphasis added.)[73] They highlight that (just as with prior studies), drawing

(years after it was first relied on), studies are sometimes revised over time, highlighting that the research is still in its early stages and over time we may see different or more nuanced conclusions.

72 Donna S. Rothstein and Evan Starr, *Mobility Restrictions, Bargaining, and Wages: Evidence from the National Longitudinal Survey of Youth 1997* (the "*Mobility Study*") (November 30, 2021), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3974897.

73 *Id*. at 1-2. The study goes on to explain, "More broadly, existing data on NCAs have four limitations: (1) they are not publicly available; (2) they come from either selected occupations or non-random sampling schemes; (3) they are cross-sectional; (4) they are not repeated cross-sections of the same population or sampling frame." *Id*.

causal inferences (as opposed to correlational inferences) is unwise.[74] Part of the difficulty with studying the impact of noncompetes and noncompete policy is that there are too many variables to reliably isolate the effects attributable to noncompete agreements.

These conclusions can be highlighted with an example that involves one of the studies[75] the Commission relies on in the in NPRM,[76] but which has multiple limitations that call its results into question. In 2015, Hawaii banned the use of noncompetes – and no-recruit agreements – in the tech sector. This "policy shock" provided a "natural experiment" that was examined in the *Hawaii Study*, initially issued in 2017, and later updated in 2019 and published in 2022. The study concluded that the elimination of noncompetes in the tech industry resulted in, among other things, an 11 percent increase in employee mobility and a 4 percent increase in new-hire wages.[77] It also anticipated 4.6 percent higher cumulative earnings over an 8-year period.[78] But there are many potentially unobserved and unobservable factors that may have impacted the conclusions that can be drawn by this research (and other research in this field). As a threshold matter, it is impossible to distinguish between the impact that the ban on noncompetes may have had, as compared to the impact that the ban on no-recruit agreements may have had or how the combination is different from a single change.[79] As a separate issue, at the time that Hawaii enacted this ban, the state was simultaneously making significant efforts to attract tech talent, with the goal of implementing steps to increase the number of tech jobs and

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74 *Id.* at 19 ("As a result, we recommend interpreting the main correlations with due caution.").

75 *Hawaii Study* (*see* n.70 *supra*).

76 Non-Compete Clause Rule, 88 Fed. Reg. at 3487-88 (NPRM at pp. 21-23) (finding this study, and similar ones, "sufficiently probative" to be relied upon), at 3490 (NPRM at p. 32) (describing the study as extrapolating a 4.8 percent increase in earnings – though missing that the increase is cumulative after 8 years).

77 *Hawaii Study* at 349.

78 *Id*. (this determination was based on other data comparing how tech workers' careers faired in states where noncompetes were determined to be more or less enforceable relative to non-tech workers).

79 The study acknowledges that the existence of the coincident ban of nonsolicits might impact the results. *Id*. at 366 & n.18. But the study also mistakenly assumed that the ban applied to agreements concerning solicitation of customers. *Id.* It did not. The ban applied to no-recruit agreements (restrictions on soliciting employees). *See* Haw. Rev. Stat. § 480-4 ("'Nonsolicit clause' means a clause in an employment contract that prohibits an employee from soliciting employees of the employer after leaving employment with the employer."). Presumably, such no-recruit agreements would have had a more direct impact on mobility (and therefore on the results of the study) than a nonsolicit would have had. However, regardless of the mistake, the study attempts to avoid the impact of the secondary agreement through a separate analysis of data from other states, showing similar results. *Hawaii Study*, at 367-88.

raise wages for tech workers.[80] This is something that, if any steps were in fact undertaken at the time, could have had a significant impact on the perceived increase in wages paid in Hawaii's tech industry following the legislative change. But they were not (and presumably could not have been) studied as part of the research on the impact of noncompetes on wages. Accordingly, we do not know what impact they may have had on the "natural experiment," or the magnitude of that impact.[81]

These limitations are similar to but separate from Professor Starr's prior observation that most of the current research fails to "isolate random variation in the use of non-competes" that would be necessary to establish noncompetition agreements as the cause of negative outcomes.[82]

Bundling Study Reveals a Fundamental Limitation of Other Studies

As identified in our prior submissions, recent scholarship by Professors Natarajan Balasubramanian,[83] Evan Starr, and Shotaro Yamaguchi[84] further calls into question the prior research. Specifically, the professors observe that because companies "bundle" multiple

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[80] For example, in mid-2014, Hawaii had established a task force of "an array of partners in the public and private sectors" with the goal of "creat[ing] 80,000 technology jobs in Hawaii that pay $80,000 or more in the next 15 years." *Living Hawaii: Can We Overcome the Problem of Low Salaries?*, (Honolulu Civil Beat (March 9, 2015), available at https://www.civilbeat.org/2015/03/living-hawaii-can-we-overcome-the-problem-of-low-salaries/.

[81] In addition, like similar problems with other studies (*see* pp. 32-33 *infra*), this study also suffers from a lack of granularity. Specifically, "because the study is based only on average salaries, it cannot compare job qualifications of new hires before and after the NCC ban." Stephen Bronars, *FTC Evidence That Non-Competes Reduce Earnings Is Inconclusive*, Bloomberg Law (Opinion, March 7, 2023), available at https://news.bloomberglaw.com/us-law-week/ftc-evidence-that-non-competes-reduce-earnings-is-inconclusive.

[82] Professor Starr explained, "[W]hen you compare workers who have signed a non-compete to those who haven't, you have to worry that there are other differences between those workers, not just whether they have signed the non-compete, which could be driving any outcomes you observe . . . . And it makes it really tricky, and I don't think we really have any great studies so far that really isolate random variation in the use of non-competes . . . ." Final Transcript of January 9, 2020 FTC Workshop – "Non-competes in the Workplace: Examining Antitrust and Consumer Protection Issues" ("FTC 2020 Workshop Tr."), pp. 158-59, available at https://www.ftc.gov/system/files/documents/public_events/1556256/non-compete-workshop-transcript-full.pdf.

[83] https://whitman.syr.edu/directory/showInfo.aspx?nid=nabalasu.

[84] https://www.rhsmith.umd.edu/directory/shotaro-yamaguchi.

restrictive covenants, the results of the prior studies, which focus on just noncompetes, turn out to be unreliable.[85] In other words, it is impossible to distill the impacts of noncompetes because they are typically co-adopted with other restrictions; when firms omit noncompetes they often refrain from using some or all of the otherwise co-adopted provisions.

It is important to note that it is not just the failure to consider the bundled agreements identified in that paper (*i.e.*, nondisclosure agreements, nonsolicitation agreements, and no-recruit agreements) that undermines so many of the studies. Also concerning is the absence from most of the research of any information concerning the impact of other agreements and approaches, much less the separation of those impacts from the impacts of noncompetes. For example, not all employees are at-will. The most direct restriction on employee mobility is a contract for a term of employment lasting a specific duration. But these relationships are understudied and do not appear to be addressed in the available research. Similarly, training repayment agreements may have a significant impact that has not been separated from the impact of noncompetes, especially where they are bundled together for low-wage, low-skilled workers.[86] It is similarly impossible to know (based on existing research) how much of the perceived impact of noncompetes is actually the result of "increased reliance by employers on various forms of outsourcing, which allows employers to fill persistent vacancies without having to raise wages or improve conditions for incumbent workers."[87] Likewise, it is impossible to know how much the results are influenced by the use of no-poach agreements, which the Commission views as having "proliferat[ed]."[88]

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85 *Employment Restrictions on Resource Transferability and Value Appropriation from Employees* ("*Bundling Study*") (January 31, 2023), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3814403. As the professors explain, "[i]solated analyses of earnings and a single restriction (*e.g.*, only noncompetes) yields different results from those that consider joint adoption, likely because of selection." Previously, the researchers explained more bluntly that, because the earlier research did not isolate out the effects of noncompetes as opposed to other covenants used in conjunction with them, those earlier studies were potentially "misleading" and "need to [be] carefully reconsider[ed]."

86 Terri Gerstein (director of the State and Local Enforcement Project at the Harvard Law School Labor and Worklife Program and a senior fellow at the Economic Policy Institute) commented that, in some ways, training repayment agreements are "even more insidious than non-competes" because they can effectively lock employees into a company, as opposed simply to preventing them from working for a competitor. 2021 Workshop Tr., Day 1, p. 67. A similar perspective was also expressed by LMU Loyola Law School Professor Jonathan Harris in his recent paper, *Unconscionability in Contracting for Worker Training*, 72 Alabama Law Review 723, 726, 749 (2021), available at https://ssrn.com/abstract=3642017.

87 Non-Compete Clause Rule, 88 Fed. Reg. at 3503 (NPRM at p. 83).

88 Non-Compete Clause Rule, 88 Fed. Reg. at 3503 n.269 (NPRM at p. 83 n.269) (citing *e.g.*, Alan

As to that last point, a recent study found that "58 percent of franchise companies have a no-poaching clause that prevents or restricts the ability of one franchisee in a chain from hiring workers employed by other franchisees. This is up from 36 percent in 1996. The practice is particularly common in fast food chains. We find that 80 percent of the 40 largest Quick Service Restaurant franchise chains have a no-poaching requirement. Since the human capital would remain within the chain, there is little business justification for such a clause other than to restrict worker mobility and opportunities." [89]

While the increased use of business-to-business no-poach agreements may have had a significant impact on the results of the noncompete research (especially given that states do not take a unform approach to no-poach agreements),[90] the extent of the impact is unknown at this point.

The Studies Suffer from
Errors Inherent to Self-Reporting

An additional global problem with the research is that many of the studies are the product of surveys and questionnaires of individual workers. This creates a potential minefield of errors undergirding many of the studies.

A major source of confusion that permeates existing research is that people often conflate or confuse noncompete agreements with nondisclosure agreements and nonsolicitation covenants. It is the universal experience of the lawyers signing onto this submission that individuals and companies alike make this mistake often – even after the differences are explained.[91] This confusion is a potential foundational problem in the data used in many of

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Krueger, *Luncheon Address: Reflections on Dwindling Worker Bargaining Power and Monetary Policy* ("Krueger Summary") at 272 (Aug. 24, 2018), at 273, available at https://www.kansascityfed.org/Jackson%20Hole/documents/6984/Lunch_JH2018.pdf).

89 Krueger Summary.

90 For example, the Wisconsin Supreme Court effectively banned the use of B2B no-poach agreements in 2002 through its decision in *Heyde Companies, Inc. v. Dove Healthcare, LLC*, 258 Wis.2d 28, 44 (2002) ("A no-hire provision that restricts the employment opportunities of employees without their knowledge and consent is harsh and oppressive to the employees, in violation of Wis. Stat. § 103.465 and the public policy of the state."). In contrast, Maine had not banned such agreements until 2019. *See* Me. Rev. Stat. Ti. 26, c. 7, § 599-B (effective September 18, 2019).

91 While one might assume that companies are sophisticated in their understanding of the nuances of restrictive covenant agreements, many are not. This is especially true for small companies and companies that do not have experienced human resources professionals or sophisticated in-house counsel.

studies assessing the effects of noncompetes, as the agreements being compared are not necessarily all noncompetes, much less noncompetes with the same time, scope, or geographic restrictions.

Indeed, the problem was highlighted by one of the members of the public who provided comments during the Commission's February 16, 2023 public forum. The gentleman described what sounded like a terrible abuse: a ten-year noncompete for a short-term employee who seemed to pose no material threat to the employer.[92] The individual was an Army veteran and indicated that, after he left his short stint working for a company, he discovered that he had signed a ten-year noncompete. He then said that he had been sued for disclosing confidential information to assist someone else who was starting a company. Given his description and that none of the signatories to this letter has ever encountered an employee noncompete even approaching ten years, it is much more likely that the gentleman was accused of violating a nondisclosure agreement – not a noncompete.[93]

In our experience, this type of confusion is quite common. Accordingly, any research that relies on individual recollections and understanding of their agreements is bound to be fraught with error.

An example is the oft-cited study relied upon by the Commission[94] and many others,[95] which may be vastly overstated as a result of this limitation. Specifically, the study[96] finds that 18 percent of the population has a noncompete,[97] 46 percent of which are two years or less. The

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92 Comments of Hillard Taylor, available at https://www.ftc.gov/media/ftc-public-forum-examining-proposed-rule-ban-noncompete-clauses-february-16-2023 (at 2:33:16).

93 Self-reporting errors may also explain some of the lack of precision in the research identified by the Commission suggesting that "between 33% and 57% of U.S. workers are subject to at least one NDA." Non-Compete Clause Rule, 88 Fed. Reg. at 3507 (NPRM at p. 98).

94 Non-Compete Clause Rule, 88 Fed. Reg. at 3485 n.42 (NPRM at pp. 16 n.42, 76).

95 It has been cited not just by the Commission, but also by President Biden in his State of the Union (and elsewhere). *See*, *e.g.*, President Biden's State of the Union, https://www.youtube.com/watch?v=zGOo1Nuh6VQ; *Biden executive order to target noncompete agreements* (Reuters, July 7, 2021), available at https://www.reuters.com/business/biden-executive-order-target-noncompete-agreements-white-house-2021-07-07/.

96 *Noncompete Agreements in the U.S. Labor Force* (n.27 *supra*).

97 Of course, it bears mention that this percentage, if correct, means that 82% of workers are not subject to noncompetes – a percentage that is even higher if California (with 18 percent of its workers subject to noncompetes that are entirely invalid) is removed from the calculation.

problem,[98] however, is that the study's conclusion is based in part on employee-reported data that at least 33.8 percent of the respondents with noncompetes, *i.e.*, more than a third, report that they have noncompetes that are longer than two years. But, perhaps with extremely rare exceptions, noncompetes of that duration are almost certain *not* to be employee noncompetes, but rather noncompetes arising from the sale of a business. Accordingly, the conclusion that 18 percent of employees (outside the sale-of-business context) are subject to noncompetes is likely based on faulty input by as much as 33.8 percent.

Although the authors of the study attempted to avoid this result, the study (like all others that depend on self-reporting) relies on individuals who frequently do not understand the different types of agreements, much less the nuances between, for example, restrictions preventing working at a company and those preventing servicing customers or even using or disclosing information at another company.

Studies, Though Inconsistent, Suggest Noncompetes Help Consumers

Although the Commission has identified several ways in which the existing research is in conflict,[99] rather than address the many other inconsistencies, we focus on only a specific concern raised by the Commission in the NPRM about the hypothesized indirect impact of noncompetes on consumers.[100] We address three comments made by the Commission in this regard.

First, the Commission concludes that the "research has also shown that, by suppressing labor mobility, non-compete clauses have negatively affected competition in product and service markets in several ways."[101]

While some of the research may suggest this result (presumably the healthcare sector research[102]), other studies suggest that the result is precisely the opposite. For example, there is

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98 Other inherent limitations are discussed below.

99 For example, the Commission observed that studies using patents as a proxy for innovation seem to be inconsistent and therefore the Commission is unable to extrapolate from them. Non-Compete Clause Rule, 88 Fed. Reg. at 3527 (NPRM at pp. 179-80).

100 Non-Compete Clause Rule, 88 Fed. Reg. at 3527 (NPRM at pp. 179-80).

101 Non-Compete Clause Rule, 88 Fed. Reg. at 3482 (NPRM at p. 2).

102 The Commission later stated that the "only empirical study of the effects of non-compete clauses on consumer prices—in the health care sector—finds increased final goods prices as the enforceability of non-compete clauses increases." Non-Compete Clause Rule, 88 Fed. Reg. at 3505 (NPRM at p. 104). But both of these conclusions are theoretical, and may be incorrect. Indeed, the healthcare study

evidence that "relaxing the enforceability of non-competes [meaning making noncompetes less enforceable] actually makes firms less willing to fire their workers and leads to higher rates of misconduct among financial advisors. So this could actually be potentially harmful for consumers. Consumers are also charged higher fees."[103] Similarly, when noncompete enforceability increased in the mutual fund industry, employees "tended to be more productive [and] take fewer risks," resulting in "more secure, predictable investments," to the obvious benefit of consumers.[104]

Second, the Commission also expressed concern that "non-compete clauses for senior executives may harm competition in product markets in unique ways, to the extent that senior executives may be likely to start competing businesses, be hired by potential entrants or competitors or lead the development of innovative products and services. Non-compete clauses for senior executives may also block potential entrants, or raise their costs, to a high degree, because such workers are likely to be in high demand by potential entrants."[105]

As a threshold matter, how senior executive noncompetes impact startups has, to our knowledge, not been studied. However, a study issued by the Federal Reserve Bank of

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(which may be limited to its industry or the particular location) is, as noted above, inconsistent with other studies in different industries.

[103] *See* FTC 2020 Workshop Tr. (*see* n.82 *supra*), at p. 148 (comments of Professor Kurt Lavetti, The Ohio State University).

[104] *Study Finds Noncompete Clauses Affect How Employees Behave, To Benefit Of Employers* (April 9, 2019), available at https://news.ku.edu/2019/03/25/study-finds-non-compete-clauses-affect-how-employees-behave-benefit-employers; *also*, Gjergji Cici, Mario Hendriock, & Alexander Kempf, *The impact of Labor Mobility Restrictions on Managerial Actions: Evidence from the mutual fund industry* (University of Cologne) at 2, 5 (March 28, 2018) ("Our first set of results shows unambiguously that increased enforceability of NCCs [*i.e.*, noncompetes] leads to better fund performance. . . . Our empirical results show that fund managers increase effort even more in large fund families after NCC enforceability becomes stricter."), available at https://www.econstor.eu/bitstream/10419/177385/1/1017934355.pdf.

[105] Non-Compete Clause Rule, 88 Fed. Reg. at 3502 (NPRM at p. 80). Similarly, the Commission states, "Non-compete clauses for highly paid or highly skilled workers such as senior executives may be contributing more to these harms than non-compete clauses for some other workers, to the extent such workers may be likely to start competing businesses, be hired by potential entrants or competitors, or develop innovative products and services." Non-Compete Clause Rule, 88 Fed. Reg. at 3513 (NPRM at p. 123).

Philadelphia[106] calls into question "the widely held view that enforcement of non-compete agreements negatively affects the entry rate of new firms or the rate of jobs created by new firms."[107] Like a seminal noncompete study from 2009,[108] the Federal Reserve Bank of Philadelphia study uses Michigan's 1985 elimination of a ban on noncompetes as a "natural experiment."[109] Based on that change, the study found:

> [I]ncreased enforcement [of noncompetes] had *no effect on the entry rate* of startups, but a *positive effect on jobs* created by these startups in Michigan relative to a counterfactual of states that did not enforce such covenants pre- and post-treatment. Specifically, we find that a doubling of enforcement led to an increase of about 8 percent in the startup job creation rate in Michigan. We also find evidence that enforcing non-competes positively affected the number of high-tech establishments and the level of high-tech employment in Michigan.

Id. at 1 (emphasis added).[110]

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[106] Gerald A. Carlino, *Do Non-Compete Covenants Influence State Startup Activity? Evidence from the Michigan Experiment* (originally published 2017, updated July 2021) (available at https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2021/wp21-26.pdf).

[107] *Id.* at 1.

[108] Matt Marx, Deborah Strumsky & Lee Fleming, *Mobility, Skills, and the Michigan Noncompete Experiment* (the "*Michigan Experiment Study*"), 55(6) MANAGEMENT SCIENCE 875-889, at 6 (April 15, 2009), available at https://doi.org/10.1287/mnsc.1080.0985.

[109] That study looked at patent filings as a proxy for invention, but a decrease in the number of patents can reflect an increase in reliance on protecting inventions through trade secret law instead.

[110] It bears noting that because noncompetes are limited in duration, the noncompete may delay the timing of the startup, but not necessarily its creation. *See*, *e.g.*, *JetBlue's Founder is Starting a New US Airline With $100 Million and 60 Planes* (Dave Neeleman, founder of JetBlue, started another U.S. airline after his noncompete expired), available at https://viewfromthewing.com/jetblues-founder-is-starting-a-new-us-airline-with-100-million-and-60-planes/). This point is implicitly noted by University of Alabama School of Law Professor Mirit Eyal-Cohen, insofar as she explains that "[a] balance can be struck by limiting the ability of . . . employees to work on projects (not firms) with similar technology for a reasonable period of time." *Innovation Agents*, 76 Wash. & Lee L. Rev. 163 (2019), available at https://scholarlycommons.law.wlu.edu/wlulr/vol76/iss1/6/. This is what most noncompetes are designed to do. In that way, this is no different from time constraints that are placed on certain government officials leaving office to preclude them from immediately engaging in certain activities (such as lobbying or publication) so they cannot take undue advantage in a new position of that learned in a former one. Indeed, *on the day that President Biden took office*, he effectively created a two-year restriction on post-government employment of certain types. *See* Executive Order on Ethics Commitments by Executive Branch Personnel (especially sections 1.2 through 1.6),

The study thus supports the serious concern that a ban on noncompetes intended to help startups will in practice do precisely the opposite. To the extent that senior executives are, as the Commission suspects, "likely to start competing businesses," the Federal Reserve Bank of Philadelphia's study may suggest that the Commission is mistaken, or that the noncompete can on balance be beneficial to startups. And, of course, as previously discussed, even if the Federal Reserve Bank of Philadelphia's study is incorrect and it turns out that stronger enforcement of noncompete agreements correlates with fewer startups, that may not necessarily be an undesirable outcome, as noncompetes are also associated with better startups, *i.e.*, higher-quality ideas and startups that are more likely to survive.[111]

Finally, the Commission notes that it "is also not aware of evidence that, in the three states in which non-compete clauses are generally void, the inability to enforce non-compete clauses has materially harmed workers or consumers in those states."[112] Indeed, no one is aware of reliable evidence on this issue. That is why research is required – to inform a proper conclusion whether the absence of noncompetes helps or, in fact, harms workers and consumers in those states.[113] Absence of evidence is not evidence of absence.

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available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-ethics-commitments-by-executive-branch-personnel/. Rather than join those who might decry the hypocrisy of taking such a position as to one's own employees while limiting what other employers can do, we bring this to the attention of the Commission and the Administration to highlight that those same first principles that the Administration felt were so important that they needed to be included in an Executive Order issued between the noon inauguration and the galas that followed that evening are the same principles that support noncompetes. Private businesses, no less than the government, have the need and the right to assure that departing employees trusted with access, information, and influence do not undermine the organization that they left, be it a business or a government, by later trading upon those things to the detriment of their former employer.

Further, even if the noncompete were not available, owners of trade secrets could seek to prevent the startup through trade secret law, at least to the extent that the startup relies on their trade secrets. As noted previously, trade secret lawsuits "are far more involved, more costly, longer lived, and less predictable than noncompete litigation." July 2021 Submission, at 18 n.50.

111 Evan Starr, Natarajan Balasubramanian, and Mariko Sakakibara, *Screening Spinouts? How Noncompete Enforceability Affects the Creation, Growth, and Survival of New Firms*, Management Science 64(2):552-572 (July 1, 2016), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2523418.

112 Non-Compete Clause Rule, 88 Fed. Reg. at 3508 (NPRM at pp. 104-05).

113 We have identified reasons to question the lack of harm on consumers, in light of the studies referenced above.

There are good reasons to question the assumption that workers and consumers[114] are in fact unharmed by the absence of noncompetes. For example, if the absence of noncompetes helped workers, one would think that California (as well as North Dakota and Oklahoma) would have the highest median income (all things being equal). But it does not. California is not even in the top five. It is seventh – well-below six other states and Washington, D.C., all of which enforce noncompetes.[115] Moreover, California has the third highest cost of living.[116] California also had a higher unemployment rate in 2022, at 4.2 percent, than the national average, at 3.6 percent.[117] If any of this is attributable to the absence of noncompetes, the proposed rule could risk exposing the rest of the country to suffer the same increased cost of living, without actually seeing the anticipated benefits in increased wages.

Some of these contrasts may be explained by the fact that while Silicon Valley is often regarded as the paradigm of free flow of workers and ideas, the reality is not that simple. As the Commission noted, the research suggests that noncompetes are used in California at the same rate that they are used in other states.[118] Further, no-poach agreements were long deployed as a substitute for noncompete agreements in California. California also has more trade secret litigation than any other state. Given all of this, it is hard to attribute the theoretical absence of noncompetes (as opposed to the reality of their existence and the offsetting use of no-poach agreements and trade secret litigation) as the cause of much of anything.[119]

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[114] Workers and consumers are, of course, not distinct categories. All workers are consumers, and many, but not all, consumers are workers.

[115] *See* Median Household Income by State 2023, available at https://worldpopulationreview.com/state-rankings/median-household-income-by-state. California is $78,672, whereas Washington, D.C. (the highest) is $90,842, followed by Maryland, New Jersey, Massachusetts, Hawaii, and Connecticut (in the order). Similarly, California comes in sixth with a mean income of $111,622, behind Maryland, Connecticut, Massachusetts, New Jersey, and Washington, D.C., at the top with $133,587. *See* Median Household Income by State 2023, available at https://worldpopulationreview.com/state-rankings/average-income-by-state. Oklahoma is eighth lowest mean income (at $74,175).

[116] *See* Cost of Living Data Series (2022), available at https://meric.mo.gov/data/cost-living-data-series.

[117] *See* Regional and State Unemployment, 2022 Annual Average Summary, available at https://www.bls.gov/news.release/srgune.nr0.htm.

[118] Non-Compete Clause Rule, 88 Fed. Reg. at 3485 (NPRM at p. 16); *see also Noncompete Agreements in the U.S. Labor Force* (*see* n.27 *supra*).

[119] It is a curious development, in this regard, that workers have been leaving California in favor of tech sectors in other states that enforce noncompetes strictly. *See*, *e.g.*, Danielle Abril, *Where are all those tech workers going? A Silicon Valley exodus is shaking up the landscape.*, Washington Post (April 14, 2023), available at https://www.washingtonpost.com/technology/2023/04/12/silicon-valley-bay-area-tech/.

California's Experience Does Not Necessarily Demonstrate Anything About Noncompetes

The fact that the research indicates that employees in California are bound by noncompetes at the same rate as employees in other states[120] suggests the existence of unexposed errors in the studies. For example, it is possible that the research is simply wrong, and noncompetes are not used at the same rate in California. This could be a result of the self-reporting problem noted above. Another possibility is that there is no actual causal connection between California's ban of noncompetes and the success of its tech industry.

This use-rate anomaly also calls into question what can be inferred from the Commission's observation that "California is a state where large companies have succeeded—it is home to four of the world's ten largest companies by market capitalization—and it also maintains a vibrant startup culture."[121] As noted above, the use of noncompetes at the same rate as other states, at the bare minimum, muddies the waters about the effects of California's ban. Similarly, the use of no-poach agreements may also have had a significant impact in Silicon Valley's early development (assuming noncompetes and no-poach agreements are a factor at all). Even absent these issues, however, there are many reasons California's tech industry could thrive *despite* the ban on noncompetes, as opposed to because of it.[122] If the ban on noncompetes contributed materially to the development of the tech industry, one might wonder why North Dakota and Oklahoma never experienced similar economic development.[123] Indeed, if Massachusetts's dominance in life sciences is any indication, California might have fared even better if noncompetes were enforced; the state certainly would have experienced less trade secret litigation[124] and the attendant impacts that such litigation has on all those involved.

In short, the fact that California's tech industry has managed to thrive in the absence of

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120 *Id*.

121 Non-Compete Clause Rule, 88 Fed. Reg. at 3507 (NPRM at pp. 100-01).

122 California's risk-taking culture is but one example. Other reasons are discussed below.

123 The Commission's observation that North Dakota and Oklahoma have thriving energy industries (*see* Non-Compete Clause Rule, 88 Fed. Reg. at 3507 (NPRM at p. 101)) reflects only that that energy resources are located in those states. Research would be needed to know what role if any the noncompete ban played (positive or negative) on that industry.

124 California's reliance on trade secret litigation is not a new phenomenon. It has been historically used in California, where a noncompete would have sufficed, since at least 1913. *See* Russell Beck, *California was an early adopter of employee restrictions — just not noncompetes* (Aug. 17, 2022), available at https://faircompetitionlaw.com/2022/08/17/california-was-an-early-adopter-of-employee-restrictions-just-not-noncompetes/.

noncompetes says little about the benefits or detriments of using noncompetes.

Research Is Not Sufficiently Granular

Even assuming any of the studies could demonstrate an actual causal connection between noncompetes and wages, innovation, or other perceived impacts, as the Commission observed, one cannot simply extrapolate "from one sector within one state," as it "may not necessarily inform outcomes that would occur in the rest of the country."[125] This is precisely the point that a 2019 paper, *Innovation Agents*,[126] reinforced, *i.e.*, the notion that existing research suffers from a lack of granularity, as innovation in different industries responds differently to varying restrictions.[127] This paper is consistent with the views expressed by Professor Kurt Lavetti[128] (among others) during the 2020 Workshop about the "oversimplification" of certain conclusions in existing research concerning the wage effects of noncompetes.[129]

The Commission has itself observed this lack of granularity: "The available data do not allow the Commission to estimate earnings effects for every occupation. However, the evidentiary record indicates non-compete clauses depress wages for a wide range of subgroups of workers across the spectrum of income and job function—from hourly workers to highly paid, highly skilled workers such as executives."[130] However, there are subgroups of workers,

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[125] Non-Compete Clause Rule, 88 Fed. Reg. at 3523 (NPRM at p.165); *see also* Non-Compete Clause Rule, 88 Fed. Reg. at 3524 (NPRM at pp. 167-68). *See also The Studies Suffer from a Critical Lack of Information* (pp. 20-22 *supra*).

[126] Mirit Eyal-Cohen, *Innovation Agents*, 76 Wash. & Lee L. Rev. 163 (2019), available at https://scholarlycommons.law.wlu.edu/wlulr/vol76/iss1/6/.

[127] It may therefore be worthwhile for future research to look more closely at the duration of the noncompete restrictions at issue, the industry in which they are used, the positions for which they are used, and the geography in which they are used and to which they apply. For example, a research scientist may be more likely to create a startup, as opposed to a salesperson, depending on the industry.

[128] http://kurtlavetti.com.

[129] *See* FTC 2020 Workshop Tr. (*see* n.82 *supra*), p. 152.

[130] Non-Compete Clause Rule, 88 Fed. Reg. at 3501 (NPRM at p. 122).

specifically, CEOs[131] and physicians,[132] for whom the evidentiary record (subject to all the same concerns about reliability[133]) indicates that noncompetes increase wages.

Correlation Does Not Necessarily Imply Causation

One of the most fraught aspects of the noncompete debate remains that much of the analysis supporting potential regulation mistakes correlation for causation.[134] This correlation-implies-causation fallacy was specifically noted by Professors Balasubramanian, Starr, and Yamaguchi in their *Bundling Study*, in which they caution that researchers cannot assess all of the variables at play in the analysis of the impacts of noncompetes, and therefore they determined to "refrain from making any strong causal claims" even in their paper.[135]

Conclusions to be Drawn

As the above reflects, the body of research and analysis continues to expand, and, as it does, significant flaws and gaps in the prior research continue to emerge. Given this evolving understanding, the presence of conflicting studies and information and the high stakes of regulation (including the potential for a significant adverse impact on the U.S. economy), any federal regulation should proceed with extreme caution. These issues are plainly more complicated than they might appear, and there seems to be general agreement (including among some of the leading researchers themselves) that much of the research is no longer considered reliable, and that additional research is required. Given the Commission's observation that "conflicting evidence exists in the academic literature,"[136] we urge the Commission to review the

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131 *See* FTC 2020 Workshop Tr. p 175-79 (comments of Professor Ryan Williams, University of Arizona).

132 *See* FTC 2020 Workshop Tr. p 147-51 (comments of Professor Kurt Lavetti).

133 The reliability concerns are less severe for CEOs, where contracts were available.

134 This was initially discussed in our July 2021 Submission, at 31 n.88 (and cited scholarship). For additional information, *see* Beck, *Please Stop Using California as the Poster Child to Ban Noncompetes – Time for an Honest Policy Discussion* ("*Time for an Honest Discussion*") (Nov. 2, 2021) (available at https://faircompetitionlaw.com/2021/11/02/please-stop-using-california-as-the-poster-child-to-ban-noncompetes-time-for-an-honest-policy-discussion/). Further, we note that the correlation-implies-causation fallacy applies to much of the existing research, including some of the scholarship cited in this submission. We nevertheless cite to it primarily to highlight areas of conflict and gaps, and to demonstrate that if it is to be relied upon to support further regulation, it would be unprincipled to ignore conflicting scholarship that supports refraining from further regulation.

135 *Bundling Study* (*see* n.85 *supra*), at 22, 30.

136 Non-Compete Clause Rule, 88 Fed. Reg. at 3522 (NPRM at p. 158).

literature that not only reflects the conflicts, but also explains that part of the reason for the conflicts is that so much of the literature suffers from the limitations discussed above, as well as others. Importantly, these limitations apply not just to studies finding one type of result; they apply widely, calling into question much of the literature presently in the field.

COMMENTS CONCERNING EXCLUSIONS FROM THE COMMISSION'S PRELIMINARY UNFAIR COMPETITION FINDING

Request: The Commission seeks comment on all aspects of its preliminary finding that noncompete clauses for all but senior executives (however defined) are exploitative and coercive at the time of the worker's potential departure from the employer.[137] Specifically, the Commission summarizes its findings as, "There is considerable evidence employers are exploiting this imbalance of bargaining power through the use of non-compete clauses. Non-compete clauses are typically standard-form contracts, which, as noted above, workers are not likely to read. The evidence shows workers rarely bargain over non-compete clauses and rarely seek the assistance of counsel in reviewing non-compete clauses."[138]

Comment: Each of the Commission's concerns can be – and is being – addressed by the states (to the extent they conclude it is appropriate).[139]

To address the concern that workers may not read the noncompete, states have begun requiring companies to provide notice to the employees that they will be subject to a

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[137] Non-Compete Clause Rule, 88 Fed. Reg. at 3503-3504 (NPRM at pp. 86-88).

[138] Non-Compete Clause Rule, 88 Fed. Reg. at 3503 (NPRM at p. 85) (footnotes omitted).

[139] For purposes of this submission, we adopt, *arguendo,* the Commission's assumption that noncompetes can, in some instances, be coercive. However, recent scholarship challenges the assumption that they are generally coercive. Indeed, it suggests that the basis for that assumption may be wrong as much as 75 percent of the time, requiring additional research. *See* Alan J. Meese, *Don't Abolish Employee Noncompete Agreements*, 57 WAKE FOREST L. REV. 631, 669 (2022) ("While the study concludes that millions of Americans sell their labor in highly concentrated or moderately concentrated markets, it also concludes that most do not. Instead, nearly three-quarters of employees work in labor markets that are unconcentrated, that is, have an HHI below 1500. It appears that most American employees sell their labor in markets that would be considered competitive in other contexts." (footnotes omitted)). As the author explains, "These data do not establish that a significant proportion of employee noncompete agreements arise in competitive markets. It is theoretically possible that noncompete agreements only arise in concentrated labor markets, perhaps implying that employers use bargaining power to impose them. However, any rule premised upon such an assumption must find some empirical support in the administrative record." *Id.* (noting its absence).

noncompete.[140] Different states have taken different approaches. For example, in Maine, the employer must provide a new employee with notice that a noncompete will be required before making the offer.[141] Massachusetts has a somewhat different requirement: the noncompete "must be provided to the [new] employee by the earlier of a formal offer of employment or 10 business days before the commencement of the employee's employment."[142] Other states have different or similar requirements, and some states have also required similar advance notice for existing employees.[143] Indeed, Colorado has gone so far as to require employers to provide a separate document in "clear and conspicuous terms" identifying the noncompete by name, "[d]irect[ing] the worker to the specific sections or paragraphs of the agreement that contain the covenant not to compete," and "stat[ing] that the agreement contains a covenant not to compete that could restrict the workers' options for subsequent employment following their separation from the employer."[144]

To address the concern that workers rarely seek advice of counsel and rarely negotiate, states have begun requiring employers to provide notice to employees that they have the right to consult with counsel.[145] And California has even opened the door to permitting enforcement of certain noncompetes (through choice of non-California law and forum) if the employee was in fact represented by counsel.[146] And, of course, if the employee consults counsel, counsel can advise the employee about negotiating the agreement. As Professor Matt Marx (one of the

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140 The Commission raises the related concern that "there is evidence employers often provide workers with non-compete clauses after they have accepted the job offer—in some cases, on or after their first day of work—when the worker's negotiating power is at its weakest, since the worker may have turned down other job offers or left their previous job." Non-Compete Clause Rule, 88 Fed. Reg. at 3503 (NPRM at 85). This issue is both the cause of many of the other problems raised by the Commission, and is, as noted above, already being addressed in the states.

141 Me. Rev. Stat. Ti. 26, c. 7, § 599-A(4).

142 M.G.L. c. 149, § 24L(b)(i).

143 *See* Russell Beck, *Updated chart of noncompete notice requirements*, available at https://faircompetitionlaw.com/2023/02/05/updated-chart-of-noncompete-notice-requirements/. It also bears noting that, even without a legislative mandate, courts have rejected noncompetes when – based on the facts of the particular case – the court determines that the employee was unfairly uninformed. *See*, *e.g.*, *Flexcon Co. v. McSherry*, 123 F. Supp. 2d 42, 44 (D. Mass. 2000) (rejecting a noncompete that was "presented to [the employee] as routine paperwork" and not mentioned in or a condition of his offer letter or subsequent promotions).

144 Colo. Rev. Stat. § 8-2-113(4)(a).

145 *See*, *e.g.*, 820 I.L.C.S. §§ 90/20 (Illinois), M.G.L. c. 149, § 24L(b)(i) (Massachusetts).

146 *See* Cal. Lab. Code § 925; *see also NuVasive, Inc. v. Miles*, 2018 WL 4677607 (Del. Ch. Sept. 28, 2018).

pioneering researchers in this field) has observed, "[i]f it were the case that workers made fully informed decisions about signing a non-compete and could negotiate higher compensation in exchange for doing so, *these agreements could be valuable for both workers and firms*."[147]

The Commission also raises the concern that "research indicates that, in states where non-compete clauses are unenforceable, workers are covered by non-compete clauses at roughly the same rate as workers in other states, suggesting that employers may believe workers are unaware of their legal rights, or that employers may be seeking to take advantage of workers' lack of knowledge of their legal rights."[148] These concerns can easily be addressed (and are being addressed) with the approaches identified above, as well as rules being tried in Washington, D.C. and Virginia, requiring that employers provide the employees with notice of the law.[149]

In short, the types of notice requirements being adopted in the states should address many of the concerns – and the research results – identified by the Commission. Indeed, with these changes, research suggests that employees should find that they "have 9.7% . . . *higher* earnings, are 4.3 percentage points more likely to have information shared with them (a 7.8% increase relative to the sample average), are 5.5 percentage points more likely to have received training in the last year (an 11% increase), and are 4.5 percentage points more likely to be satisfied in their job (a 6.6% increase) relative to those employees without a non-compete."[150]

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147 *The Chilling Effect of Non-Compete Agreements*, by Matt Marx and Ryan Nunn (May 20, 2018) (emphasis added), available at https://econofact.org/the-chilling-effect-of-non-compete-agreements. Professor Marx continued with his observation, "However, the actual conditions under which non-competes are used provides reason to doubt that non-competes are indeed mutually beneficial in all or most cases." *Id.* This observation is consistent with the findings in *Noncompete Agreements in the U.S. Labor Force* (*see* n.27 *supra*), identifying various positive effects of noncompetes when advance notice is provided, including higher earnings, more access to information, more training, and more job satisfaction. Instructively, according to that study, more than half (52 percent) of people presented with a noncompete chose to "forgo[] the opportunity to negotiate [because] the terms were reasonable," while 41 percent assumed they were not negotiable, *id.* at p. 9, the latter of which could be addressed with advance notice. Indeed, 55 percent of people presented with a noncompete before they accepted the offer thought it was reasonable and 48 percent thought they could negotiate it. *Id.* Accordingly, the recommendations in this letter are intended to address these issues holistically.

148 Non-Compete Clause Rule, 88 Fed. Reg. at 3503 (NPRM at p. 85) (footnotes omitted).

149 D.C. Code § 32-581.04; Virginia code § 40.1-28.7:8(G).

150 *Noncompete Agreements in the U.S. Labor Force* (*see* n.27 *supra*) (emphasis added). While the Commission noted that "the empirical economic literature shows workers generally have lower, not higher, earnings when non-compete clause enforceability increases," Non-Compete Clause Rule, 88 Fed. Reg. at 3508 (NPRM at 104), the other benefits identified in the study do not diminish. But regardless, the additional recommendations in this submission should assist in preserving the positive

The final concern the Commission raises concerning the potentially exploitive effect is at the end of employment, "because [noncompetes] force a worker to either stay in a job they want to leave or choose an alternative that likely impacts their livelihood."[151] This, of course, would only be true if the employee was exploited on the way in, or if circumstances have changed as to render the previously non-exploitive agreement exploitive. That latter change in circumstances can be addressed through rules concerning what changes would constitute exploitation, and addressing the cause. For example, many states prohibit enforcement if the employee's employment was terminated without cause.[152]

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Request: The Commission seeks comment on whether there are other categories of highly paid or highly skilled workers (*i.e.*, other than senior executives) to whom the preliminary finding that noncompetes are exploitive should not apply.[153]

Comment: For the reasons explained above, the Commission's finding should be suspended at least until the impact of the various states' efforts can be assessed. At a minimum, the finding should not apply to anyone who received notice and was given an opportunity to negotiate the noncompete.

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Request: The Commission seeks comment on its dual findings that "employers have alternatives to non-compete clauses that reasonably achieve the same purposes while burdening competition to a less significant degree" and that "the asserted benefits from these commonly cited justifications do not outweigh the considerable harm from non-compete clauses."[154]

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wage effects of advance notice, at least to the extent that a causal inference can be drawn from the study. (We reiterate the concern that it is extremely difficult to draw causal conclusions from most of the research.)

151 Non-Compete Clause Rule, 88 Fed. Reg. at 3504 (NPRM at p. 86).

152 *See 50 State Noncompete Survey* (Appendix B).

153 Non-Compete Clause Rule, 88 Fed. Reg. at 3503-04 (NPRM at p. 86).

154 NPRM at p. 89. We note that the existence of competing interests and economic studies supporting benefits and detriments of noncompetes (which may or may prove incorrect, overstated, or offset by unstudied impacts) may suggest that this balancing of interests belongs to the legislative branch of government. Accordingly, this submission only incidentally addresses the Commission's request (at page 159) for input on the pros and cons of noncompetes.

Comment: The findings presume both that noncompetes harm competition and that the harm is considerable. Those findings are based on studies, some of which we address elsewhere in this submission. Accordingly, we address here only the effectiveness of the alternatives to noncompetes. Those alternatives are trade secret law, nondisclosure agreements, and other restrictive covenants. None of these alternatives provides the same level of clarity and predictability of outcome to the parties and complete protection afforded by noncompete agreements.

Trade Secret Law Is Insufficient

As we explained in our prior submission,[155] although trade secret law has a broad scope, information failing to qualify as a trade secret is not protectable under trade secret laws – state or federal. But just because the information may not qualify as a trade secret does not mean that it is unimportant to the business or does not provide the business with a discernable competitive advantage. For example, as previously identified, a significant source of disagreement in trade secret lawsuits can be customer information (often complete or partial customer lists). Some states include customer information or customer lists in the definition of trade secrets.[156] Others do not.[157] In the states that do not, the threshold battle typically involves whether the customer information can even be a trade secret. And, even when it *can* be a trade secret, parties often still spar over (among other things) whether the particular customer information in fact qualifies as a trade secret.[158]

Further, one of the most nuanced issues in trade secret law is how to handle the fact that trade secrets can often be retained in a person's memory. As a general matter, the mere fact that information is lodged in someone's head does not strip it of its trade secret qualities or the available protections.

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155 July 2021 Submission at pp. 9-11.

156 *See* Russell Beck, *Trade Secrets Acts Compared to the UTSA* ("*50 State Trade Secrets Comparison Chart*"), available at *https://beckreedriden.com/trade-secrets-laws-and-the-utsa-a-50-state-and-federal-law-survey-chart/*; Sid Leach, *Anything but Uniform: A State-By-State Comparison of the Key Differences of the Uniform Trade Secrets Act*, available at https://www.swlaw.com/assets/pdf/news/2015/11/06/How Uniform Is the Uniform Trade Secrets Act - by Sid Leach.pdf.

157 *Id*.

158 The DTSA did "not preempt existing state trade-secret laws"; it gave trade secret owners "the powerful option of filing suit in federal court, thus adding an important additional tool for American companies." Explaining the Defend Trade Secrets Act (American Bar association, September 2016), available at https://www.americanbar.org/groups/business_law/publications/blt/2016/09/03_cohen/.

An example, identified in our prior submission,[159] of how this issue can present a significant threat to a company (in a context in which the company is unable to use a noncompete) is a Chief Marketing Officer (CMO) who worked on the company's strategic plan and then leaves for a competitor to be its CMO, developing its strategic plan. The information the CMO knows about the former employer's plans may influence decisions about the new employer's strategic plan. How can the CMO avoid taking advantage of the weaknesses in the prior employer's strategy, or avoid getting tripped up by the strengths of that plan, as he or she maps out the course for the new company?

Another type of information presenting the same problem is the so-called "blind alley" (or "negative information"), *i.e.*, information that was considered and rejected on the path to finding the right solution. Anyone who knows the failed efforts to develop a formula for a product (such as a chemist who worked on its development) would be unlikely to sit by watching the same mistakes being made (knowing they will fail) on the way to making their own similar product. Instead, they would be tempted to reject those failed formulas at the outset, thereby saving substantial research and development efforts, cost, and time.

Despite all of this, some states' trade secret laws do not fully address the risks surrounding these circumstances. And even where the law provides protection in the abstract, in most cases the details of a departing employee's potential misconduct remain unknown and unknowable to the former employer (this is particularly true of "negative information"). In this sense, litigation over potential misappropriation of a trade secret – which can be expensive and disruptive for all parties involved – is inherently imperfect as a means of preventing the use or disclosure of that secret.

The Commission implicitly recognizes this in its comment that identifies that "[a]nother possible benefit of the proposed rule related to markets for products and services is that worker flows across employers contribute to knowledge sharing, resulting in increased levels of innovation."[160] But the supposed increased innovation would be at the expense of the companies that invested time, money, and effort to develop the information and then imparted that information to their workers. The ability of one employer to obtain for free (paying only the cost of hiring an employee) that which the other has invested significant resources (paying not only the cost of hiring the employee, but for the development of the information and the training of the employee) is not a positive outcome. It reflects the free-rider problem. In the short term, it is essentially theft of intellectual capital and the type of commercial immorality universally

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[159] July 2021 Submission at pp. 10-11.

[160] Non-Compete Clause Rule, 88 Fed. Reg. at 3526 (NPRM at p. 175).

condemned by federal and state trade secret law. In the long term, it would prevent investment[161] and discourage innovation, harming everyone.

While trade secret law protects from this in theory, in practice it has severe limitations. It cannot (absent an injunction obtained in time) prevent disclosure or use – intentional or otherwise – at a new employer. Further, there is no realistic way for former employers to monitor for use or disclosure that occurs behind closed doors at a new employer. And even when the use or disclosure is later discovered, the harm has already occurred and can rarely be fully remedied. This is precisely the problem that trade secret law tries to – but cannot fully – prevent.[162]

Nondisclosure Agreements Are Insufficient

As we also explained in our prior submission,[163] nondisclosure agreements ("NDAs") serve multiple important purposes, including putting employees on notice that the company has information that may be confidential in general, and identifying for the employee particular types of information that the company considers confidential. Also, nondisclosure agreements are an important building block in a company's efforts to take (and ability to demonstrate that it has taken) reasonable measures to protect its information – both a practical imperative and a threshold requirement in most states (and under the federal DTSA) to being able to rely on trade secret law. They may also provide a breach of contract remedy for the taking of company information (to the extent not preempted by applicable state trade secret laws).

However, like trade secret laws, NDAs also do not prevent an employee from working for a competitor, even in the situations described above, where the employee's knowledge of the trade secrets is likely to be used to give the competitor an unfair competitive advantage. While courts enforcing NDAs will typically order the return of information, they will rarely prevent employees from working for the competitor, thereby leaving the former employer to attempt to police the former employee's conduct (*i.e.,* use or disclosure of its trade secrets) remotely and without all the tools that may be necessary to prevent irreparable harm.[164]

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161 *See Innovation Study* (n.28 *supra*).

162 The risks to company trade secrets are not static. With increased reliance on trade secrets, increased value of those secrets, increased mobility of information, and a less-supervised remote workforce, trade secrets are at increasing risk.

163 July 2021 Submission at pp. 11-12.

164 Because "a secret once lost is . . . lost forever," *FMC Corp. v. Taiwan Tainan Giant Indus. Co., Ltd.*, 730 F.2d 61, 63 (2nd Cir. 1984), and policing a former employee's (and their new employer's)

Other Restrictive Covenants Are Insufficient

While other restrictive covenants identified by the Commission (such as nonsolicitation and no-recruit agreements[165]) prohibit certain conduct that relies on the use of a company's trade secrets or goodwill, they do not act as a barrier to such conduct. First, employees often ignore the prohibition, which (unlike a breach of a noncompete) frequently goes undiscovered until the harm has occurred.[166] But even where the employee attempts to abide by the restrictions, subtle solicitation is frequently inevitable simply by dint of the contact that the employee will have with the customers they used to work with. And regardless of an employee's conduct, "the former employee's close association with . . . customers may cause those customers to associate the former employee, and not the employer, with products of the type sold to the customer through the efforts of the former employee. That association in the client's mind tends to overlook, among other things, the institutional training, support, and synergy that enable the employee to provide services of the quality the client values so highly."[167] In each of these instances, the former employer will not find out about the employee's violation until after the harm has occurred and is incapable of being fully remedied.

Thus, while these less-restrictive agreements are often reasonably effective at achieving their purpose, in some circumstances, these "lesser" restrictions prove to be insufficient. This is precisely why the new Massachusetts and Rhode Island noncompete laws expressly authorize

conduct is generally quite difficult, noncompetes can provide much more reliable protection for the integrity of a company's trade secrets than litigation claiming misappropriation.

165 No-recruit agreements are often called "nonsolicitation agreements," *see*, *e.g.*, Haw. Rev. Stat. § 480-4 ("'Nonsolicit clause' means a clause in an employment contract that prohibits an employee from soliciting employees of the employer after leaving employment with the employer."). In fact, this confusion is even reflected in the *Hawaii Study* discussed above.

166 Oftentimes the discovery is serendipitous, for example, it is discovered because an email is misdirected by a client to the employee's former work email address. Other times, customers or former colleagues who have been solicited may inform the former employer. Or worse, the trade secret is found published in the new employer's patents. Remaining employees are frequently the ones most impacted by a former colleague's breach of these agreements, as it can, for example, directly impact the remaining employee's sales efforts or competitive advantage in the market.

167 *McFarland v. Schneider*, No. 96-7097, 1998 WL 136133, at *42–43 (Mass. Super. Ct. Feb. 17, 1998) (internal quotations and citations omitted). This is referred to as goodwill, and it is frequently the primary concern in certain sectors (notably, the staffing industry) and for companies managing departing salespersons. It is developed by the company (in part through the work it pays its employees to perform) and is necessary to maintain the employer's continued relationship with its customers.

courts to impose a "springing noncompete" (or a "time out noncompete," as one commentator described them) when an employee violates these other contractual obligations, or certain other obligations.[168]

Companies face these types of issues every day, and the courts are filled with such cases.[169] But, as difficult as it would be to protect these interests without noncompetes, it would be even more difficult when coupled with the Commission's simultaneous narrowing – under the "functional test" – of the use of nondisclosure agreements and lesser-restrictive (lesser-protective) restrictive covenants.

Noncompetes Deter and Prevent Misconduct

Because of the limitations of these other tools (trade secret law, nondisclosure agreements, or other restrictive covenants), none can provide the level of protection, deterrence, and clarity offered by noncompetes. Only noncompetes serve as a prophylactic to prevent the very circumstances in which trade secrets and customer goodwill are most likely to be put at risk, thereby preventing the harm before it happens.[170] As such, noncompete agreements can be a

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168 M.G.L. c. 149, § 24L(c) (Massachusetts); R.I. Gen. Laws § 28-59-3(b) (Rhode Island). Georgia introduced legislation to adopt a similar rule in the last legislative session. *See* Georgia House Bill 332 ("Notwithstanding the absence of a covenant that restricts competition after the term of employment, a court is authorized to grant relief in the form of an injunction preventing the employee from working for a competitor for a limited period of time in a reasonable geographic area and with respect to a reasonable scope of activities if the court finds that such relief is necessary and appropriate to remediate the employee's violations of other covenants or legal obligations, such as a customer nonsolicitation covenant or a nondisclosure covenant, and the contract expressly authorizes such judicial relief."), available at https://legiscan.com/GA/bill/HB332/2021.

169 Though much of the noncompete research has been focused on the "holdup" problem – specifically, whether noncompetes allow companies to more readily share information because they believe the employee is less likely to leave, *see Noncompete Agreements in the U.S. Labor Force* (*see* n.27 *supra*) – they do not look at the other interests, including the protection of goodwill and that companies would no longer be able to trust employees to have single-threaded access to their customers, if the employee could work with those customers elsewhere.

170 One of the criticisms of trade secret law that the Commission identifies is that the inevitable disclosure doctrine can be too harsh. Non-Compete Clause Rule, 88 Fed. Reg. at 3506 (NPRM at pp. 95-96). Noncompetes solve this harshness by permitting agreement upfront, rather than surprising the employee with a court-created noncompete. Indeed, the Maryland case cited by the Commission, *LeJeune v. Coin Acceptors, Inc*., 849 A.2d 451, 471 (Md. 2004), makes this exact point: "The chief ill in the covenant not to compete imposed by the inevitable disclosure doctrine is in its after-the-fact nature: The covenant is imposed after the employment contract is made and therefore alters the employment relationship without the employee's consent." *Id*. (quoting *Whyte v. Schlage Lock Co*., 101 Cal.App.4th 1443, 125 Cal.Rptr.2d 277 (2002)). The other case cited by the Commission, *Bayer*

critical tool to prevent the harm caused by this type of information exfiltration, as well as the correlative inbound contamination of a new employer's existing information and work product, and to help employees avoid new employment relationships that will tempt, or create the very real prospect of, their breach of confidentiality and other lawful obligations. Rather than putting the parties and the court to the expense and uncertainty of litigation, noncompetes operate to temporarily prevent an employee from taking a role with a competitor that would put the former employer's trade secrets, other confidential business information, and customer goodwill at risk of being used.[171]

The Commission discounts these benefits, finding that "the considerable harms to workers and consumers are not outweighed because an employer has some marginally greater ability to protect trade secrets, customer lists, and other firm investments, or because the worker is receiving increased training, or because the firm has increased capital investments."[172] However, the Commission acknowledges that it has no data demonstrating that the protections are only "marginally" greater, rather than significantly greater. Accordingly, the Commission states, it "is not aware of any evidence non-compete clauses reduce trade secret misappropriation or the loss of other types of confidential information."[173] But, as noted above, absence of evidence is not evidence of absence, and making a decision of this magnitude without reliable evidence could be devastating to companies, employees, and the economy.

Further, the Commission relies for its finding this in part on its observation that trade secret law "provides employers with a viable means of protecting their investments in trade secrets."[174] The Commission reaches this conclusion in significant part because the filing of new

Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999), is a case applying California law making the point that, "[t]o the extent that the theory of inevitable disclosure creates a de facto covenant not to compete without a nontrivial showing of actual or threatened use or disclosure, it is inconsistent with California policy and case law." Thus, if noncompetes are not banned, this issue is eliminated.

171 For companies for which customer contacts are the key to the business, noncompetes can prevent the subtle customer solicitation that otherwise frequently occurs (whether intentional or unintentional).

172 Non-Compete Clause Rule, 88 Fed. Reg. at 3508 (NPRM at p. 104). The Commission also concludes that "If they were, workers would have higher earnings when non-compete clauses are more readily available to firms (*i.e.*, when legal enforceability of non-compete clauses increases) or prices for consumers would be lower." *Id.* These issues are addressed elsewhere in this submission.

173 Non-Compete Clause Rule, 88 Fed. Reg. at 3505 (NPRM at p. 92).

174 Non-Compete Clause Rule, 88 Fed. Reg. at 3506 (NPRM at p. 98).

trade secret cases appears to have remained roughly static for several years. The conclusion is potentially misplaced for several reasons.

As a threshold matter, a significant limitation of the conclusion is that it is based on a survey that is opaque and may not reflect what is actually happening.[175] But, even if the data were fully known and reliable, it is hard to draw any conclusive findings just from the number of court filings. For example, during that same period, companies were not relying exclusively on trade secret law; they were also relying on noncompetes (and other rights) for the protection of their trade secrets. Without knowing what would happen if noncompete protections were removed from the equation, it is impossible to conclude that trade secret law would be adequate. For example, a datapoint is provided by comparing California's incidence of trade secret litigation with that of the other states. Far more trade secret litigation occurs in California than any other state,[176] suggesting (based on the numbers and the experience of the signatories) that litigation is being used as a substitute for the unavailable tool of a noncompete. Another related, plausible explanation is that trade secret misappropriation is far more common in California (resulting in more litigation) because employees have more opportunities to misappropriate on behalf of a competitor due to the noncompete ban. To the extent that such a conclusion can be properly drawn, it stands to reason that a national ban on the use of noncompetes would have similar results nationally.[177]

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[175] Surveys like the one relied on can vary significantly for many reasons, including based on how the data is obtained, coded, and searched. Accordingly, these studies should be used with caution. In that regard, the trend (a static level of new case filings) for the first half of that period (2015-2017 relied on) is consistent with the trend during the same period seen in number of decisions involving trade secrets reported in Westlaw. *See New Trade Secret and Noncompete Case Growth Graph (Updated January 18, 2023)*, available at https://faircompetitionlaw.com/2023/01/18/new-trade-secret-and-noncompete-case-growth-graph-updated-january-18-2023/. However, the number of decisions involving trade secrets reported on Westlaw diverges from the other data for the second half of the timeframe looked at (2018-2020). *Id*. There, contrary to the purported continued roughly static number of new cases, the data suggests that there was actually an increase of approximately 15 percent in the number of decisions from the prior period. *Id*.

[176] *See California Trade Secrets Litigation Supplants Noncompete Litigation*, available at https://www.faircompetitionlaw.com/2017/06/25/california-trade-secrets-litigation-supplants-noncompete-litigation/.

[177] It bears noting that trade secret litigation is far more involved, more costly, longer lived, and less predictable than noncompete litigation. *See generally* Christina L. Wu, *Noncompete Agreements in California: Should California Courts Uphold Choice of Law Provisions Specifying Another State's Law?*, 51 UCLA L. REV. 593, 610-11 (2003) ("Noncompete agreements can also reduce the cost of trade secret litigation. . . . Instead of claiming misappropriation of trade secrets, an employer can simply bring a contract action for breach of the covenant not to compete, which would be less costly

The Commission also dismisses the need for noncompetes in part because it concludes that "there is little reliable empirical data on trade secret theft and firm investment in trade secrets in general, and no reliable data on how non-compete clauses affect these practices."[178] As to the former, the self-reported data (more likely under-reported than over-reported) is that 59 percent of "employees who lost or left a job . . . admit[ed] to stealing confidential company information, such as customer contact lists."[179] This is consistent with the results of a highly-regarded research paper, that "in over 85% of cases, the alleged misappropriator was either an employee or business partner," with employees representing an increasing share (up to 59 percent) of the misappropriation over the course of the period reviewed by the study.[180] Whether such data is conclusive or not, there is no evidence that it is wrong or that noncompetes do not help to prevent the harm that would be created if those employees could put that information to use at a competitor. Accordingly, the Commission should exercise extreme caution in making changes, as the consequences of a mistake can, as explained elsewhere in this submission, be devastating to companies whose information and customers are wrongfully taken, to the employees that remain at those companies, and to the economy more broadly.[181]

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and easier to prove. Trade secret misappropriation cases can involve extensive discovery. They also consume the time of other employees, who would otherwise be performing more productive tasks. In contrast, proving a violation of a noncompete agreement would not involve extensive discovery or exhaust other employees' time." (footnotes omitted)).

178 Non-Compete Clause Rule, 88 Fed. Reg. at 3505 (NPRM at p. 93).

179 *See*, *e.g.*, *More Than Half Of Ex-Employees Admit To Stealing Company Data According To New Study*, Ponemon Institute and Symantec Corporation (Feb. 23, 2009) (finding that 59 percent of "employees who lost or left a job in 2008 . . . admit to stealing confidential company information, such as customer contact lists"), available at https://cisp.cachefly.net/assets/articles/attachments/19634_symantec.pdf; *What's Yours Is Mine: How Employees are Putting Your Intellectual Property at Risk*," Symantec Corporation (Feb. 6, 2013) (finding that "[h]alf of the survey respondents say they have taken information, and 40 percent say they will use it in their new jobs."), available at https://www.ciosummits.com/media/solution_spotlight/OnlineAssett_Symantec_WhatsYoursIsMine.pdf. These conclusions are also consistent with the combined anecdotal experience of the 102 undersigned signatories, suggesting that, whether through intentional misconduct or otherwise, employees pose the greatest threat to companies' trade secrets and customer relationships – each the lifeblood of large and small companies alike.

180 David S. Almeling, Darin W. Snyder, Michael Sapoznikow, Whitney E. McCollum, Jill Weader, A *Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45:2 GONZAGA L. REV. 291, 302-03 (2010), available at http://blogs.gonzaga.edu/gulawreview/files/2011/02/Almeling.pdf.

181 It may be an obvious point, but it bears noting that while the use of noncompetes may not prevent the wrongful acquisition of the information, they necessarily prevent the use of it. Removing the protections afforded by noncompetes exposes companies to the misuse of their information by those

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Request: The Commission seeks input on the proposed functional test for determining whether a nondisclosure agreement, nonsolicitation agreement, training repayment agreement, or other contract term should be considered a *de facto* noncompete.[182]

Comment: The proposed functional test should be omitted. Its inclusion would insert a level of uncertainty and unpredictability[183] that would stymie the drafting of and reliance on NDAs and other agreements at a time when such agreements will become even more necessary.

As a threshold matter, to accomplish its purpose, the standard is impossibly vague. What amount of interference on the employee's subsequent employment would be necessary to trigger the rule? For salespeople, for example, restricting their ability to solicit customers with whom they worked could be interpreted as preventing their employment for any company that expects them to bring a "book" of business with them. Are stock forfeiture provisions in long-term incentive compensation plans – *i.e.*, covenants that do not prevent a former employee from moving to a competitor, but instead simply result in forfeiture of unvested equity if a departed employee were to join a competitor prior to vesting of the equity – covered by the functional test (or otherwise subject to the ban)? What about "retirement" benefits (for example, accelerated vesting of unvested equity) to which a departing employee (who had reached a certain age or tenure with the company) would be entitled only if they retire (or work for a noncompetitor), but not if they were to work for a competitor within a certain period after leaving (thus they are can choose either to receive retirement benefits or work for a competitor)?

But even if the standard could be stated with more precision, it would still raise more questions than it would answer: Who would make the decision that a restrictive covenant crosses the line and qualifies as a *de facto* noncompete? Would it be the Commission? Or would it be a court? And would the decision be based simply on the language as drafted, or would it be based on the individualized application to a particular employee and industry? Would it matter if the language could be read broadly, but would not apply that way to a particular individual? When would the evaluation be made? Would it be evaluated in light of

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30 million people (based on the Commission's numbers). If the survey is right that 40 percent of people would use the misappropriated information in their new job (*see* n.179 *supra*), that is 12 million people suddenly given carte blanche to use their former employer's trade secrets, with an impact of billions of dollars of wealth transfer or loss. Again, it may not be a coincidence that California has by far the most trade secret litigation in the country.

[182] Non-Compete Clause Rule, 88 Fed. Reg. at 3509-3510 (NPRM at pp. 110-11).

[183] As a consequence, the proposed functional test would also undermine the Commission's stated goal of certainty through uniformity.

the circumstances that existed when the agreement was drafted, or would it be evaluated when it is enforced? What happens if circumstances change, such that an agreement that was once appropriate can later be interpreted as too broad?

Further, there are no studies identified by the Commission (or of which the signatories to this submission are aware) that address the impact that a rule like this would have. Accordingly, without precedent, regulating them in a complete vacuum of information poses a risk of serious harm to companies, employees, and the economy.

Presumably the goal of the functional test is to encourage good faith drafting of the restrictive covenants that will remain after the rule takes effect. If so, to the extent that noncompetes are prohibited, courts are more than capable of determining whether an agreement, despite its appellation, is effectively a substitute noncompete.

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Request: The Commission also seeks input on whether the rule should apply to workplace policies.[184]

Comment: It should not. As a threshold matter, workplace policies apply only during employment; they do not restrict post-employment conduct.[185] The Commission has stated that "the Rule would apply only to post-employment restraints—*i.e.*, restrictions on what the worker may do after the conclusion of the worker's employment with the employer. The Rule would not apply to concurrent-employment restraints—*i.e.*, restrictions on what the worker may do during the worker's employment."[186] Accordingly, for that reason alone, the Commission should not apply its proposed rule to workplace polices.

Further, there is no empirical evidence identified by the Commission (or of which we are aware) that identifies, much less purports to evaluate, the impact of applying the proposed rule (or a similar rule) to workplace policies.

Finally, the Commission should consider the unintended negative consequences of a rule prohibiting internal policies ensuring employees do not compete against their employer, solicit

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184 Non-Compete Clause Rule, 88 Fed. Reg. at 3510 (NPRM at p. 111).

185 Even California permits the use of policies preventing "in-term" restraints, *i.e.*, prohibiting competition during employment. *See*, *e.g.*, *Techno Lite, Inc. v. Emcod, LLC*, 44 Cal.App.5th 462, 671 (Cal. Ct. App., 2nd Dist. 2020) ("During the term of employment, an employer is entitled to its employees' "undivided loyalty.").

186 Non-Compete Clause Rule, 88 Fed. Reg. at 3509 (NPRM at p. 107).

customers on behalf of a competitor, or use confidential information other than as needed to further the success of the business, which should be in the joint interest of the employer and its employees.

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SALE OF BUSINESS NONCOMPETES

Request: The Commission seeks comment on whether the 25% threshold is the right approach or whether some other percentage or use of a more flexible term (such as "substantial owner, substantial member, and substantial partner") would be better.[187]

Comment: A flexible approach is recommended.

As a threshold matter, as the Commission recognized, "there has been little empirical research on the prevalence of non-compete clauses between the seller and buyer of a business. The Commission is also not aware of empirical research on the economic effects of applying additional legal restrictions to these types of non-compete clauses." [188] Indeed, the Commission does not identify any unfair method of competition arising from the use of noncompetes tied to the sale of a business. To the contrary, it would be unfair in the truest sense to prohibit noncompetes in the context of a sale of a business and thereby permit the seller to "derogate from the value of the business as sold by competing with it . . . ."[189] Given the lack of information and the importance to the economy of lawful mergers and acquisitions, the Commission should avoid placing any limitations on the exemption.

Further, any specific percentage is artificial, arbitrary, and harmful. If the 25 percent threshold were adopted, the maximum number of people who could be bound by a noncompete arising out of the sale of a business would be four, thereby significantly limiting the number of potential target companies. Further, using a straight percentage ignores the value conferred on the sellers. The combination of these two problems leads to illogical results. For example, four

[187] Non-Compete Clause Rule, 88 Fed. Reg. at 3514 (NPRM at pp. 131-132).

[188] Non-Compete Clause Rule, 88 Fed. Reg. at 3514 (NPRM at p. 131). The Commission also observes that this type of exemption is recognized in the majority of states. *Id.* 129. Of course, noncompetes are also recognized in the majority of states. To the extent that the Commission's analysis is informed by how the majority of states handle these issues, it may wish to reevaluate whether to impose any ban on noncompetes, except, perhaps, in the most categorically-narrow of circumstances (such as to ban them for low-wage, low-skilled workers). Doing so would, according to the research relied upon by the Commission, eliminate 53 percent of noncompetes. *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3485 (NPRM at p. 16).

[189] *See*, *e.g.*, *Wells v. Wells*, 9 Mass. App. Ct. 321, 324–25 (1980) (citations omitted).

equal owners of a company that sells for $100,000 net (meaning each owner receives $25,000) can each be bound by a noncompete, whereas none of five equal owners of a company that sells for $100 million net (meaning each owner receives $20 million) can be bound by a noncompete. As noted during the Commission's February 16 "public forum," even Jeff Bezos could not be bound by a noncompete under this standard.

Setting a specific percentage can also result in owners holding less than a 25 percent interest having to discount their sale price to account for the potential that usual and ordinary noncompetes will be deemed to be unenforceable at a later date.

Leaving the approach flexible allows the parties, all of whom are likely to be represented by counsel and have negotiating power, to determine what is fair. If they are unable to do so, a court certainly can. This was the conclusion reached in Massachusetts, when it rejected various alternative bright-line approaches in favor of an open standard,[190] and is the approach taken in California.[191]

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Recission/Retroactive Effect

Request: The Commission seeks comment on each aspect of section 910.2 (*Unfair Methods of Competition – Retroactive Effect/Recission*) of the proposed rule.[192]

Comment: We comment on only the retroactive impact of section 910.2.

Because noncompetes and other restrictive covenants entered into with employees are contracts, they must be supported by consideration.[193] For a new employee, consideration typically takes the form of their employment and all incidents of their employment. Specifically, employees agree to provide their services subject to various terms and conditions, sometimes including restrictive covenants, and employers pay them for this in the form of compensation and

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[190] *See* M.G.L. c. 149, § 24L(a) (applying the exemption to anyone who "who will receive significant consideration or benefit from the" transaction).

[191] *See Vacco Indus., Inc. v. Van Den Berg*, 5 Cal. App. 4th 34, 48-49, 6 Cal. Rptr. 2d 602, 610 (1992) (rejecting a minimum threshold approach).

[192] Non-Compete Clause Rule, 88 Fed. Reg. at 3512 (NPRM at pp. 121-22).

[193] *See*, *e.g.*, Jerry Cohen, Karen Breda, & Thomas J. Carey Jr., *Employee Noncompetition Laws and Practices: A Massachusetts Paradigm Shift Goes National*, 103 MASS. L. REV. 31 (June 2022) (discussing the development of noncompete law, including consideration requirements).

benefits.[194] But sometimes, for new employees and existing employees, the consideration for the restrictive covenants is more direct and obvious. For example, employers often provide bonuses,[195] stock awards, and options in exchange for an employee's acceptance of a noncompete and other restrictive covenants. Further, at the time of departure, employers will sometimes provide separation payments conditioned on the employee's agreement to a noncompete.[196] Whatever the form – whether part of the overall compensation and benefits or in the form of a bonus, stock award, option grant, or something else – the employee has received something in exchange for the noncompete and other restrictive covenants.

As a consequence, recission of existing contracts undoes half of the bargained-for exchange. If the estimates are correct and approximately 30 million people are bound by noncompetes, the elimination of those agreements changes 30 million previously-agreed upon financial arrangements. But, under the law of rescission, the parties must be returned to the status quo *ex ante*, *i.e.*, the parties must be returned to their positions as if the contract had not been made (or as near as possible).[197]

As currently proposed, the rule would not do that. Instead, the employee would be able to retain all benefits of the agreement, without returning to the company that which the employee received in exchange. The employee would be relieved of compliance with the noncompete, but permitted to retain stock given by the company. The employer would have essentially given the stock to the employee as a gift. That would also be true of bonuses paid for the noncompete. And it would even be true where severance was negotiated at the end of employment. All noncompetes will be gone, but the employees will retain the consideration they received for

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194 *See*, *e.g.*, *International Business Machines Corporation v. De Freitas Lima*, 2020 WL 5261336, *10 (S.D.N.Y. Sept. 3, 2020) ("Some of [employee's] compensation paid for these Non-Compete obligations."). Recently, some states have begun requiring an express statement of the consideration. *See* 820 I.L.C.S. §§ 90/5 (Illinois); M.G.L. c. 149, § 24L(b)(vii) (Massachusetts).

195 For new employees, bonuses would be in the form of a signing bonus.

196 After nearly a decade of legislative wrangling, Massachusetts enacted a statute that prohibits (among other things) the enforcement of noncompetes against employees who were "terminated without cause or laid off," unless the noncompete is agreed to as part of a qualifying separation from employment. M.G.L. c. 149, § 24L(a), (c). Similarly, Washington prohibits the use of noncompetes "against an employee . . . [i]f the employee is terminated as the result of a layoff, unless enforcement of the noncompetition covenant includes compensation equivalent to the employee's base salary at the time of termination for the period of enforcement minus compensation earned through subsequent employment during the period of enforcement." RCW§§ 49.62.020(1)(c).

197 26 Williston on Contracts § 68:25 (4th ed.) (Requisites and conditions of restitution, In general).

them.[198] In contrast, if a ban were to go into effect, employers will, at that time, presumably suspend mid-stream any benefits still to be provided in exchange for the noncompete, terminate all unvested options and stock provided in exchange for the noncompete, and cancel bonuses agreed to in exchange for the noncompete.

The same type of asymmetrical undoing of agreed-upon bargains will exist in the context of past sales of businesses where the buyer of a business priced into the transaction noncompetition from former owners or in which a business hired a former owner for a role and at a salary level which would have been lower had there been a risk that the individual would leave and immediately compete. The proposed rule thereby (presumably unintentionally) favors former business owners over those that purchased their business.

Ultimately, there is no way to predict how parties to these transactions would react. However, it is certainly the case that there could be a flood of piecemeal litigation around the country seeking declarations from the courts about how the ban impacts contracts and obligations going forward. It is not an exaggeration to say that the immediate cancellation of 30 million contracts would be unprecedented and potentially create chaos in the economy and judicial system.

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ALTERNATIVE APPROACHES[199]

Request: The Commission seeks comment on alternate approaches to a straight ban, specifically, the use of presumptions, with varying burdens of proof and interests.[200]

Comment: If the Commission were to adopt a rule, the signatories recommend the use of a category-based, relatively bright-line standard. As previously noted, clarity and predictability benefit all parties. It is not just a corporate interest; workers signing noncompetes need to understand what will happen. Using reasonably objective standards helps to provide that certainty. Indeed, all stakeholders, including the courts, would benefit from applying a bright-

198 We offer no comment at this time concerning whether this would violate the Takings Clause of the Fifth Amendment, would constitute a lawful taking, requiring compensation, or would implicate other constitutional protections or ignore other constitutional constraints on agency action.

199 As noted elsewhere, the signatories to this submission do not address the Commission's authority to issue a rule. However, the signatories do not believe the Commission *should* adopt a rule banning or significantly restricting noncompetes. By providing comments addressing these alternative approaches, the signatories do not intend to suggest otherwise.

200 Non-Compete Clause Rule, 88 Fed. Reg. at 3517-3718 (NPRM at pp. 143-144).

line rule in any enforcement proceeding. While in theory presumptions might appear to be a feasible compromise between an outright ban and no rule at all, in practice, the likely alternatives would create unworkable uncertainty and concomitant litigation.

The Commission views existing noncompete law as similar to a rebuttable presumption. That is a misperception. As with all litigation, parties with the burden of proof must prove their case. But presumptions alter that framework. And while some states do use rebuttable presumptions in the noncompete context, those states typically permit enforcement of noncompetes, and then make it easier to enforce them based on the presumption and harder to do so if the presumption is not met; they do not use the presumption as a bar to enforcement that must be overcome.[201]

Further, depending on the standard, the ability to overcome the presumption may be largely illusory. For example, the Commission identifies a possible standard as requiring that the employer "show[] by clear and convincing evidence that the non-compete clause is unlikely to harm competition in labor markets or product or service markets, or identifies some competitive benefit that plausibly outweighs the apparent or anticipated harm."[202] This proposed rule would effectively require an employer (and therefore the employee) to approach a litigation over a noncompete in a manner similar to the way one litigates an antitrust case, *i.e.*, by hiring experts on competition and labor markets. Noncompete issues, however, are much different, and are (typically) focused on what one individual knows or can do with specific knowledge or company goodwill for a discrete new and competitive employer. Given the Commission's findings concerning what the academic research shows about the theoretical impacts of noncompetes on competition (findings we believe to be unwarranted for the reasons expressed in this submission), it seems unlikely that an employer would ever be able to overcome those findings. Even lowering the standard to a preponderance of the evidence, rather than a clear and convincing showing, would not ameliorate the concern.

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Request: The Commission asks for comment on whether to differentiate among categories of workers and, if so, how.[203]

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201 *See*, *e.g.*, Fla. Stat. Ann. §§ 542.335 (Florida); M.G.L. c. 149, § 24L(b)(iii), (v), (vi) (Massachusetts); RCW §§ 49.62.005–20 (Washington).

202 Non-Compete Clause Rule, 88 Fed. Reg. at 3517 (NPRM at p. 142).

203 Non-Compete Clause Rule, 88 Fed. Reg. at 3503-3504, 3516, 3517, 3518, 3519 (NPRM at pp. 86, 89, 116, 137, 140, 144, 147).

Comment: As identified in prior submissions, if any restrictions are adopted, the most practical, workable (nonarbitrary) approach would be to prohibit the use of noncompetes for workers who are not exempt under the Fair Labor Standards Act (the "FLSA"), 29 U.S.C. § 203.

Before turning to the reasons for such an approach, we pause to comment on a comprehensive ban. We note that, in the last eight years alone, there have been 43 changes to noncompete laws in 27 states, plus changes in Washington, D.C.[204] Further, legislative activity continues. Last year, there were 98 bills pending in 29 states, plus D.C. Significantly, only five of those nearly 100 bills proposed a complete ban – a number that was down from prior years. In the end, five states made eight changes to their noncompete laws, and D.C. made a change to its law too.[205] None was a ban.[206] This year (early in the legislative process for most states) there have already been 74 bills in 28 states, 12 of which include protections for low-wage workers. So far, only nine of those bills propose a complete ban (one of which has already died).

The legislative activity around the country reflects one thing: While there is not uniformity of opinion about what a national standard should be, there is unanimity about what it should *not* be – a complete ban.

While complicating matters for employers with employees in multiple states (especially with remote work exacerbating the difficulties), this patchwork of ideas is working precisely as Supreme Court Justice Brandeis imagined: The states are functioning as laboratories of

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204 For a summary of the changes, *see Almost 60 percent of states updated their noncompete laws in the last decade*, available at https://faircompetitionlaw.com/2023/02/12/noncompete-law-changes-in-the-last-decade-updated-february-12-2023/. Since that article, Kentucky passed another change to its noncompete law, bringing the total to 43 changes. *See* https://legiscan.com/KY/bill/HB502/2023.

205 *See* https://faircompetitionlaw.com/2022/07/12/curious-which-states-have-changed-their-noncompete-laws-in-the-last-decade-more-than-half/.

206 Although Washington, D.C. initially passed a near total ban (it had some exemptions), it ultimately concluded that that was a bridge too far and replaced it with a wage threshold before the near-total ban went into effect. *See A second paradigm shift in D.C.'s noncompete law — no longer a ban, now a wage threshold*, available at https://faircompetitionlaw.com/2022/07/15/a-second-paradigm-shift-in-d-c-s-noncompete-law-no-longer-a-ban-now-a-wage-threshold/. Indeed, the last time a permanent ban on employee noncompetes was adopted was in 1890 (in Oklahoma). Interestingly, Michigan banned noncompetes in 1905, but then repealed the ban in 1985. *See Michigan Experiment Study* (*supra* at n.108) at 6 (discussing Michigan's 1905 statute banning noncompetes and the Michigan Antitrust Reform Act of 1985 repealing it). Similarly, Montana also had imposed a ban in 1895, though courts have in recent years interpreted the statute to permit the use of reasonable noncompetes. *See Montana allows noncompetes! (Only California, Oklahoma, and North Dakota don't.)*, available at https://faircompetitionlaw.com/2021/01/30/montana-allows-noncompetes-only-california-oklahoma-and-north-dakota-dont/.

democracy, trying many different types of changes and avoiding the potentially "serious consequences to the nation" of taking a national approach, before knowing the economic and other risks of such approaches.[207]

To the extent that the Commission intends to step in, we recommend proceeding with caution and testing out a rule with the most impact and least risk: That is the adoption of the FLSA nonexempt standard. We know only that, as Professor Starr explained, "roughly 18 percent of the U.S. workforce [was] bound by a non-compete [in 2014]. Among low-skill workers . . . without a college degree, it's about 15 percent."[208] But, because low-skill workers represent a high percentage of the workforce, that 15 percent translates, as noted by the Commission, to 53 percent of all workers bound by noncompetes.[209]

While the Commission indicated an openness to alternatives, including the use of the FLSA as a standard for which employees may be subject to noncompetes, the Commission understandably expressed concerns about non-bright-line standards. In particular, the Commission worries that if "the Rule were to define workers as 'employees' according to, for example, the FLSA definition, employers may misclassify employees as independent contractors to evade the Rule's requirements."[210] Intentionally (and even unintentionally) misclassifying workers is unlawful and carries with it potentially significant adverse financial consequences, steep penalties, and even criminal responsibility.[211] Despite the existence of some bad actors, if

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[207] As Justice Brandeis long ago said relating to federal regulation of state rules, "Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country." *New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, dissent). Many states are engaging in precisely those types of experiments now, from banning noncompetes for workers at different compensation thresholds or based on other criteria to requiring various types of notice be provided to workers. Interfering with that process and imposing a one-size-fits-all approach, creates the very type of risk that Justice Brandeis warned about.

[208] *Study Finds Many Companies Require Non-Compete Clauses For Low-Wage Workers* (Nov. 7, 2016), available at https://www.npr.org/2016/11/07/501053238/study-finds-many-companies-require-non-compete-clauses-for-low-wage-workers.

[209] Non-Compete Clause Rule, 88 Fed. Reg. at 3485 (NPRM at p. 16).

[210] Non-Compete Clause Rule, 88 Fed. Reg. at 3511 (NPRM at p. 116).

[211] *See* Fair Labor Standards Advisor, available at https://webapps.dol.gov/elaws/whd/flsa/screen74.asp.

companies make a misclassification mistake, in the experience of the signatories, it is usually through ignorance, not malice, and there is no reason to assume otherwise.[212]

Using exempt status under the FLSA as the standard has the benefit of capturing both wage-based limitations and limitations based on job functions. While not a perfect 1:1 alignment, workers who are nonexempt tend to be those who do not have access to trade secrets or substantial goodwill, and therefore tend not to be in a position to harm the former employer to such an extent that a noncompete would be required or would outweigh the impact on the employee from a policy standpoint. This standard was adopted first in Massachusetts,[213] and has been followed by Rhode Island[214]; Nevada adopted a similar-in-concept ban based on whether the employee is paid hourly.[215]

Using exempt status also avoids the arbitrariness and inconsistencies of wage thresholds. While wage thresholds have the benefit of clarity, how much an employee is compensated has less to do with their exposure to trade secrets and company goodwill, and more to do with whether it is "fair" (from a policy perspective) to allow them to be subject to a noncompete. Further, because the cost of living varies markedly around the country, a one-size-fits all approach will affect different people differently. For example, while a wage threshold based on a median wage would insulate half of the entire state's population from noncompetes, that threshold would need to vary significantly by state. Further, as the Commission observes, for the number to have the same impact each year, it would need to be adjusted annually, thereby creating more uncertainty.[216] Alternatively, setting the threshold as a multiple of the federal

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212 Absent evidence of widespread intentional misconduct, it is typically best to follow Hanlon's razor and not attribute to malice that which can be adequately explained by ignorance. *See* https://en.wikipedia.org/wiki/Hanlon%27s_razor. Moreover, generally speaking, contractors must be free from an employer's control and be able to utilize their skills generally for other companies. Accordingly, it can be more difficult to enforce a noncompete in a contractor relationship. The incentives therefore would likely lead employers to retain workers as employees, rather than as contractors to be able to better enforce a noncompete.

213 M.G.L. c. 149, § 24L(c). Massachusetts added additional restrictions based on age, status as a student, and whether the employee's employment had been terminated without cause. *Id*.

214 R.I. Gen. Laws § 28-59-3. Rhode Island added additional restrictions based on age, status as a student, and whether the employee's earnings exceed "two hundred fifty percent (250%) of the federal poverty level for individuals . . . ." R.I. Gen. Laws §§ 28-59-2, 3.

215 Nev. Rev. Stat. § 613.195(3).

216 Different states have taken different approaches to these thresholds based on both amount and when the threshold must be met. In Illinois, for example, the threshold must be met at the time the agreement is executed, whereas in Oregon, it must be met at the time of enforcement, and in

minimum wage provides clarity, but, like wage thresholds, does not allow for variations in cost of living.[217] Similarly, the threshold as a multiple of the federal poverty level also provides clarity, but fluctuates annually and also does not allow for variations in cost of living.[218]

The Commission is also considering basing an exemption on job functions or occupations.[219] Some states have taken this approach for specific jobs functions and occupations.[220] In contrast, Colorado recently abandoned a more nebulous categorical approach (focused primarily on whether the worker was "executive or management employees and professional staff" or had access to trade secrets) in favor of a wage threshold.[221] This abandoned-approach suffered from the very problems that the Commission identified with respect to how to define a "senior executive," *i.e.*, there will inevitably be an inherent lack of clarity.[222] Moreover, some industries have a greater need for protection of intellectual property than others, leading to significant disparities across industries in the percentages of employees and at what levels of compensation are required to sign them. Such categorizations, including trying to define "other highly paid or highly skilled workers who are not senior executives,"[223] suffer from the same difficulties and ambiguities.

Whatever the approach, these are policy decisions that would be made in the absence of evidence needed to distinguish among the categories. Instructively, both President Obama with the assistance of then-Vice President Biden (after lengthy research, analysis, and discussion), as

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Colorado, the threshold must be met both at the time of contracting and at the time of enforcement. *See* Colo. Rev. Stat. § 8-2-113(2)(b) (Colorado); 820 I.L.C.S. §§ 90/10(a) (Illinois); O.R.S. § 653.295(1)(e) (Oregon).

[217] New Hampshire is experimenting with this approach, having adopted a threshold of two times the federal minimum hourly wage. *See* RSA 275:70-a-I(b).

[218] Maine and Rhode Island are experimenting with this approach, having adopted a threshold of four times and 2.5 times the poverty level for individuals, respectively. *See* Me. Rev. Stat. Ti. 26, c. 7, § 599-A(3) (Maine); R.I. Gen. Laws §§ 28-59-2 (Rhode Island).

[219] Non-Compete Clause Rule, 88 Fed. Reg. at 3518 (NPRM at p. 144).

[220] *50 State Noncompete Survey*. Such an approach is fraught with risks of over-inclusiveness and under-inclusiveness unless every potential job function and occupation were reviewed for whether and what extent it posed a risk to an employer's legitimate business interests if not subject to a noncompete.

[221] Colo. Rev. Stat. § 8-2-113(2)(b).

[222] Non-Compete Clause Rule, 88 Fed. Reg. at 3520 (NPRM at p. 151) ("This term may be challenging to define, given the variety of organizational structures used by employers.").

[223] Non-Compete Clause Rule, 88 Fed. Reg. at 3520 (NPRM at p. 152).

well as Washington, D.C. and eleven states so far,[224] have (after years of experience and deliberations) taken an approach of retaining noncompetes, but limiting their use for certain workers, categorized in different ways, primarily based on bright-line wage thresholds, the FLSA, or something similar (*e.g.*, hourly workers).[225] Accordingly, we note only that an approach that provides clarity (even if somewhat imperfect, like the FLSA[226]) while enabling companies to protect their state-recognized legitimate business interests without the variations in cost of living or annually-changing and potentially uncertain increases tends to be the most practical, workable, and nonarbitrary.

To the extent that the Commission is concerned that anything other than a uniform ban might result in some workers being unaware of their rights,[227] the concern is somewhat misplaced. As the Commission also notes, in California, where noncompetes have been banned since 1872, workers still have noncompetes at the same rate as other states, suggesting that the existence of even a blanket rule is not what is needed. Washington, D.C. is experimenting with requiring a notice about the law to be provided to employees anytime a noncompete will be required,[228] whereas Virginia is experimenting with requiring the posting of a notice where other workplace notices are required.[229]

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[224] Those states are Oregon (originally in 2008, though updated most recently for 2022), Illinois (in 2016 and again in 2022), Maine (in 2019), Maryland (in 2019), Massachusetts (in 2018), Nevada (in 2021), New Hampshire (in 2019), Rhode Island (in 2020), Virginia (in 2020), Washington (in 2020), Colorado (in 2022), and Washington, D.C. (in 2022). *See New Noncompete Wage Thresholds for 2023*, available at https://faircompetitionlaw.com/2023/02/06/new-noncompete-wage-thresholds-for-2023/; and *What you need to know about wage thresholds for noncompetes — updated chart for D.C.* (for the years in which the changes were made) available at https://faircompetitionlaw.com/2022/10/03/what-you-need-to-know-about-wage-thresholds-for-noncompetes-updated-chart-for-d-c/.

[225] For a current summary of the standards, *see* Russell Beck, *New Noncompete Wage Thresholds for 2023*, available at https://faircompetitionlaw.com/2023/02/06/new-noncompete-wage-thresholds-for-2023/. Instructively, while the impact of raising the wage threshold in Hawaii and Oregon have been studied, the others have not. Making changes without fully understanding the impact of each of those changes, as well as the impact of the changes in notice requirements, may result in unnecessary further regulation with significant adverse unintended consequences.

[226] While the FLSA is not a perfect bright-line, there is ample caselaw to guide employers, and, as noted above, ample incentives for employers to comply with the law.

[227] Non-Compete Clause Rule, 88 Fed. Reg. at 3518 (NPRM at pp. 146-47).

[228] D.C. Code § 32-581.03a.

[229] Virginia code § 40.1-28.7:8.

To the extent that the Commission is concerned that anything other than a wholesale, across-the-board ban would not fully address its objectives concerning the economic impact of noncompetes on the labor market, we address those issues elsewhere in connection with the research supporting that conclusion.[230]

COST ESTIMATES

Request: The Commission seeks comment on its estimates of the costs for companies to comply with the order and update their agreements, and its belief that litigation costs would decrease.[231]

Comment: We believe the Commission's estimates are significantly understated.

The Commission has estimated that it would take an average of 20 minutes to send out the required notice, at an average cost of $9.98 (estimating the rate at $29.95 per hour) per firm.[232] In the experience of the undersigned, sending out a notice like that anticipated by the proposed rule is precisely the type of requirement about which companies will seek advice of outside counsel to ensure they understand and comply with their obligations. This problem would only be magnified in circumstances where employers would need to consider how to handle and possibly rescind promises of future compensation that were provided in consideration of employees executing noncompetes. Litigation in that circumstance is inevitable. Therefore this process will almost certainly take a significant amount of time for all but the smallest companies (who likely will still seek legal advice).[233] Accordingly, outside counsel will need to explain the issues to human resources, in-house counsel, and potentially others at the business as well. But disregarding the actual time it is likely to take and instead using the Commission's estimates of time and number of companies with noncompetes, this process (undertaken with involvement of outside counsel) will likely cost (at a bare minimum) many multiples of the Commission's estimate.

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[230] We note in this regard, that the signatories who represent employers typically and routinely advise their clients that one size does not fit all, and that such an approach is likely to miss key aspects of what needs to be protected, while creating unwanted consequences and unenforceable agreements. Accordingly, if the Commission were to take a "one size fits all" approach, it would certainly create unanticipated and unwanted results, without fully addressing the problems that the proposed rule is designed to address.

[231] Non-Compete Clause Rule, 88 Fed. Reg. at 3528 (NPRM at p. 183).

[232] Non-Compete Clause Rule, 88 Fed. Reg. at 3528 (NPRM at p. 184).

[233] We have not polled clients for how long they believe it would take them to determine who to send these notices to, and therefore offer no opinion as to that portion of the process.

Specifically, the commission estimates the hourly rate of an in-house lawyer at $61.54/hour.[234] But outside counsel will be involved. Not a single lawyer signing onto this letter (*i.e.*, the types of lawyers who handle these matters) bills at an hourly rate of less than five times that amount. Accordingly, we've used a conservative estimate of $307.70 per hour (5*$61.54) as the hourly rate. Performing the same math as the Commission, we get $307.70/3, or $102.56 per firm, as opposed to $9.98 per firm.[235] To calculate the total cost, we perform the same calculation as the Commission[236]: $102.56*7.96 million*0.494 = $403.29 million.[237]

The Commission has estimated that "ensuring contracts for incoming workers do not have non-compete clauses would take the equivalent of one hour of a lawyer's time (valued at $61.54), resulting in a total cost of $61.54*7.96 million*0.494=$241.96 million."[238] Again, we believe that the Commission has significantly underestimated the time this would take. However, using the Commission's estimates and adjusting for a conservative outside counsel's rate ($307.70 per hour), the total cost (excluding in-house costs) would be $307.70*7.96 million*0.494 = $1.2 billion (not $241.95 million).[239]

Finally, the Commission has estimated that, on average, it would take between four and eight hours to redo a company's existing restrictive covenant agreements.[240] Based on that, the Commission calculates the "total expenditure on updating contractual practices to range from $61.54*4*49.4%*6,102,412=$742.07 million to $61.54*8*49.4%*6,102,412=$1.48 billion." In the experience of the undersigned, who are involved in the drafting and revising of these NDAs and restrictive covenant agreements around the country, the Commission's estimates of both the time and hourly rate are dramatically understated, particularly if the proposed functional test

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234 Non-Compete Clause Rule, 88 Fed. Reg. at 3528-3529 (NPRM at p. 184).

235 Of course, this ignores both that the in-house costs the Commission identified (and probably more) will still be needed and that most lawyers around the country with expertise in this area of law will bill at a significantly higher rate than that used. At the higher end, that rate can easily be 15-20 times (or more) than the rate used by the Commission. At that lower end of the higher rate (15 times), the rate would be $923.10/hour and the cost would be $307.70 per firm.

236 Non-Compete Clause Rule, 88 Fed. Reg. at 3528-3529 (NPRM at p. 184).

237 Calculated at a higher rate ($923.10/hour), the actual cost would be $1.2 billion. The Commission estimated $39.25 million. *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3528 (NPRM at p. 184). If the time estimate is understated at all, this number only increases.

238 Non-Compete Clause Rule, 88 Fed. Reg. at 3528-3529 (NPRM at p. 184).

239 Calculated at a higher rate ($923.10/hour), the actual cost would be $3.6 billion. The Commission estimated $241.95 million. *See* Non-Compete Clause Rule, 88 Fed. Reg. at 3528 (NPRM at p. 180). If the time estimate is understated at all, this number only increases.

240 Non-Compete Clause Rule, 88 Fed. Reg. at 3528 (NPRM at p. 186).

were to take effect and thereby require reexamination of every clause that might potentially be considered a noncompete. However, adjusting for just the hourly rate, these calculations (excluding in-house costs) change to the following: $307.70*4*49.4%*6,102,412 = $3.7 billion to $307.70*8*49.4%*6,102,412 = $7.4 billion.[241]

As for litigation costs, the Commission states that "[t]he proposed rule would likely reduce litigation costs associated with non-compete clauses, since there would be little to no uncertainty that the vast majority of those clauses are prohibited."[242] We would agree, if such litigation were limited to only alleged violations of a noncompete clause, which rarely is the case. As the Commission notes, "it is also possible that costs associated with trade secret claims or other post-employment restrictions, such as non-disclosure agreements or non-solicitation agreements, would increase."[243] We agree with this statement.

However, while the Commission "is not aware of any evidence indicating the magnitude of the change in litigation costs associated with any of these claims,"[244] the undersigned can unequivocally report that the costs of trade secret litigation are significantly greater than the cost of noncompete litigation. Consistent with our experience, estimates of attorneys' fees for trade secret litigation range in the millions of dollars.[245] Noncompete litigation is a fraction of that amount. Moreover, the Commission's analysis does not appear to take into account the likely flood of litigation that would ensue to clarify the legal effect of cancelling 30 million contracts overnight. And none of these cost analyses take into account the potential damage to businesses caused by the disclosure of their most critical information if noncompetes were to become unlawful.

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<u>SCOPE OF THE PROPOSED RULE</u>

The proposed rule states that it "shall supersede any State statute, regulation, order, or interpretation to the extent that such statute, regulation, order, or interpretation is inconsistent

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241 Calculated at a higher rate ($923.10/hour), the actual cost would be $11.13 billion to $22.2 billion. If the time estimate is understated at all, this number only increases.

242 Non-Compete Clause Rule, 88 Fed. Reg. at 3530 (NPRM at 190).

243 Non-Compete Clause Rule, 88 Fed. Reg. at 3530 (NPRM at 190).

244 Non-Compete Clause Rule, 88 Fed. Reg. at 3530 (NPRM at 190).

245 *See Costs Soar for Trade Secrets, Pharma Patent Suits, Survey Finds*, Bloomberg (Sept. 10, 2019), available at https://news.bloomberglaw.com/ip-law/costs-soar-for-trade-secrets-pharma-patent-suits-survey-finds. (The study looked at claims involving $10 million or more in dispute.)

with this Part 910."[246] Putting aside the anticipated legal challenges to such an approach, the scope of this section of the proposed rule is unclear. For example, it is unclear if it would preclude courts from using springing/time out noncompetes or from relying on the trade secret law inevitable disclosure doctrine. If the Commission is intending to take away those remedies, it should be clear.

It is also unclear how the proposed rule would apply to transactions between businesses, including franchisor-franchisee transactions, that require the contracting parties to restrict their respective employees from using the other party's trade secrets to compete, and may rely on the other party having noncompete agreements in place with its employees before it would share its trade secrets.

IV. Recommendations For A Fair Approach[247]

As before, assuming the Commission were to adopt a rule (which we do not believe is justified by the available research), we have included recommendations for incremental changes that we believe would accomplish most of the Commission's objectives, while avoiding many of the likely severe unintended adverse consequences of a wholesale ban.[248]

Unintended Consequences

Before considering the possible areas for regulation, it is important to understand the other, less-obvious, potential unintended consequences of barring the use of noncompetes.

The Commission has identified many of them; some it has acknowledged, some are unquantified and unquantifiable, and some it has dismissed. But there are more. And worse, there could be many unintended consequences that are simply unknown at this point.[249] The following are the some of the more significant unintended consequences of which we are aware:

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[246] Non-Compete Clause Rule, 88 Fed. Reg. at 3536 (NPRM at 217), proposed "§910.4 Relation to State laws."

[247] Again, the signatories to this submission take no position in these comments about whether the Commission has the authority to promulgate any rule whatsoever, regardless of its scope.

[248] Of course, given the activity at the state level, we question the wisdom of rushing to impose a federal overlay before the state experiments have a chance to run their course (putting aside the significant legal challenges that the Commission would face if it were to proceed).

[249] The fact that we do not know is a significant problem in and of itself, and due in large part to a lack of research. Accordingly, we urge the Commission to consider sponsoring or waiting for that research. As noted above (pp. 55-57), there have been "policy shocks" in multiple states. The impacts of those

- A significant increase in the likelihood that trade secrets will be unlawfully taken to a competitor.

- The substitution of noncompete litigation in favor of more-costly, less-predictable, longer-lived trade secret litigation.

- Less firm-sponsored training, with a concomitant reduction in employee development and opportunities. Research suggests training is more common in states with stronger noncompete enforcement.[250]

- It will cost companies billions of dollars to comply.[251]

- It will cost companies hundreds of billions in wages too.[252] And some employees might lose future benefits once their existing agreements are abrogated.

- Small businesses and their employees will be disproportionately adversely impacted in multiple ways. Small businesses are frequently formed with the personal life savings of the owner. Many of these small companies (as well as many thinly-capitalized companies and start-ups) will be unable to survive the loss of the comparatively-inexpensive protections provided by noncompetes.[253]

– in different states, with different economies, trying different natural experiments – should be studied before embarking on changes that may prove to be unnecessary at best, or disastrous at worst.

[250] Evan Starr, *Training the Enemy? Firm-Sponsored Training and the Enforcement of Covenants Not to Compete* (January 25, 2015), available at https://www.faircompetitionlaw.com/wp-content/uploads/2015/02/training-the-enemy-firm-sponsored-training-and-the-enforcement-of-covenants-not-to-compete-starr.pdf.

[251] Based on the Commission's cost estimates at Non-Compete Clause Rule, 88 Fed. Reg. at 3522 (NPRM at p. 159); *see supra* at pp. 58-60 (addressing the cost estimates).

[252] Based on the Commission's cost estimates at Non-Compete Clause Rule, 88 Fed. Reg. at 3522 (NPRM at p. 160).

[253] During the Massachusetts noncompete/trade secret law legislative process, many small companies emphasized this and similar concerns. In particular, some small business owners explained passionately that they had invested their entire life savings in the company, and if they cannot prevent a former employee from working (for a limited period) in a competitive role, it would threaten the existence of the company, their savings, their livelihood, and the remaining employees' jobs will all be lost.

- Similarly, many of these small businesses and thinly-capitalized companies will be unlikely to provide new opportunities and detailed training if their business will be at risk. That could curtail investment and expansion of what has been the dominant engine of U.S. job growth over the last decade,[254] or it could constrain recruitment and retention efforts to family members or others within the social network connections of such employees.[255]

- Small businesses and start-ups will also be the most adversely impacted insofar as they often have few or only one trade secret that forms the basis of their value, but cannot afford costly litigation when their trusted employees leave for competitors or are lured away by larger companies that can easily misuse the trade secret(s) in ways that may not be detectable.

- Businesses of all sizes, including small and family owned businesses, will lose substantial value in a sale of business or merger context because of the loss of protection to the buyers that would otherwise be provided by noncompetition agreements; the proposed "25% owner rule" is insufficiently protective in an environment where owners of other percentages and key employees are critical contributors to the businesses being sold, and without noncompetition agreements, buyers will not buy, and are likely to instead simply hire away key personnel.

- Customers are likely to suffer, as companies will likely pass the increased costs to consumers.

- Increased costs for companies may also impact consumers in the form of other inflationary consequences, including increased housing costs and rising cost-of-living. If Silicon Valley is any indication, this is a significant concern.

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[254] According to the Small Business Administration, small companies create millions of jobs annually and accounted for about 62 percent of new private sector jobs in the United States from 1995 to 2020. *See* Congressional Research Service, SMALL BUSINESS ADMINISTRATION AND JOB CREATION, at 5 (updated January 4, 2022), available at https://fas.org/sgp/crs/misc/R41523.pdf.

[255] This not only limits employee opportunities generally, but could in fact have a greater deleterious effect on minority applicants unable to provide contractual assurances to new employers with whom they have no previous connections.

- Although the Commission believes that a ban might help competition in product and service markets, which may lead to lower prices for consumers, the sizes of these effects are not quantifiable based on the estimates in the economic literature, and worse, some studies suggest the opposite.

- Although the Commission identifies that there would be an increase in new firm formation (an impact that is not certain, given conflicting research), it is unclear what the benefit would be, if the increase were simply to result in startups that are more likely to fail.

- Although the Commission identifies increased innovation, the studies reflect inconsistent predictions.[256]

Given these many partially-researched or unresearched potential consequences, a ban should await additional studies to ensure the potential consequences are fully identified and understood.

Possible Balanced Guidance or Regulations

To the extent that the Commission has authority to promulgate a rule[257] and chooses to exercise such authority, we urge the Commission to instead provide guidance on how the Commission views noncompetes under Section 5 of the Federal Trade Commission Act. But whether issued as guidance or a rule, we urge the Commission to be judicious, to tailor any regulation to the specific abuses, and to recognize that reliance on early-stage empirical research, conflicting evidence, and faulty assumptions[258] to change noncompete laws is, in the end, not

[256] Indeed, the quality of the innovation may vary as well. At least one study finds that where noncompetes are enforced more strictly, firms are more likely to develop extremely valuable technological breakthroughs. *See Innovation Study* (n.28 *supra*).

[257] As noted above, the signatories to this submission are aware that a significant legal issue has been raised concerning whether the Commission has such power; we express no opinion on that issue in this submission.

[258] In particular, the assumption that the rise of Silicon Valley and the (somewhat exaggerated) decline of Massachusetts' Route 128 is a reflection of the different noncompete enforcement regimes has taken on an almost mythical quality that is not supported by the record. It is not what AnnaLee Saxenian (who first compared the two regions) said, nor is it what Ronald Gilson (who built on that work and specifically looked at the different treatment in noncompetes) said either. What they discussed was much more nuanced. In any event, Professor Gilson added an important caveat: "I think caution is in order in assessing the policy implications of Silicon Valley's history. . . . [E]ach state's particular industrial population may dictate a different balance." Ronald J. Gilson, *The Legal Infrastructure of*

only unnecessary, but potentially counterproductive and contrary to the U.S. government's policy of protecting trade secrets, as expressed through the Defend Trade Secrets Act. We recognize that a ban may be seen as popular to the uninformed and therefore politically expedient, but this is a complicated issue, and complicated issues call for carefully considered, balanced solutions.[259]

Given all of the above, if the Commission were to determine that noncompete contracts are an appropriate subject of federal guidance or regulation, we identify the following two broad categories:

A. Fairness and Transparency

There are several steps that would help to balance the playing field and ensure fairness.

- A **ban** or significant restriction on noncompetes for **low-wage workers** (defined as employees who are not exempt under the Fair Labor Standards Act). There is rarely a need for such workers to be bound by noncompetes, and even when the need might exist in the abstract, the potential detriment to the worker would typically outweigh it.

High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete, 74 N.Y.U. L. Rev 575, 627-28 (June 1999), available at https://scholarship.law.columbia.edu/cgi/viewcontent.cgi?article=1950&context=faculty_scholarship. Thus, while indiscriminate acceptance of the Silicon Valley/Massachusetts myth is certainly harmless in general, using it to justify noncompete regulation is extremely misguided. For more discussion, see *Misconceptions In The Debate About Noncompetes*, Law360, July 8, 2019 (reprinted on *Fair Competition Law* as "*Correlation Does Not Imply Causation: The False Comparison of Silicon Valley and Boston's Route 128*," available without subscription at https://www.faircompetitionlaw.com/2019/07/09/correlation-does-not-imply-causation-the-false-comparison-of-silicon-valley-and-bostons-route-128/); Jonathan Barnett & Ted M. Sichelman, *The Case for Noncompetes*, 86 U. CHICAGO L. REV. 953, 978-1009 (July 22, 2020), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3516397.

[259] The Commission posited the possibility of a requirement that every company in the country that uses noncompetes report to the Commission. Non-Compete Clause Rule, 88 Fed. Reg. at 3521 (NPRM at pp. 155-56). Such a requirement would likely be unduly administratively burdensome on the Commission. It would also be unnecessary; if the steps contemplated in this section were required, most of the Commission's concerns could be addressed, and the impacts on workers, companies, and the economy can be assessed in due course.

- **Guidance** or a **requirement** that employers provide **advance notice** that a noncompete will be required.[260]

- **Guidance** or a **requirement** that employers provide the employee with a short "clear and conspicuous" summary of the restrictive covenants it is asking the employee to agree to.[261]

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[260] The Commission has expressed concern that, while advance notice "may increase earnings, increase rates of training, and increase job satisfaction for that worker, the Commission does not believe this alternative would achieve the objectives of the proposed rule. Merely ensuring workers are informed about non-compete clauses would not address one of the Commission's central concerns: that, in the aggregate, they are negatively affecting competitive conditions in labor markets—including impacts on workers who are not bound by non-compete clauses— and in markets for products and services. Moreover, the benefits of a disclosure rule may be limited due to the differential in bargaining power between many workers and their employers, which would hamper those workers' ability to negotiate for better employment terms." Non-Compete Clause Rule, 88 Fed. Reg. at 3482 (NPRM at pp. 154-55). These assumptions may be correct, but they may not be. It very well may be the case that if all employees had advance notice, the other concerns might be eliminated as a consequence.

For example, according to that study, more than half (52 percent) of people presented with a noncompete chose to "forgo[] the opportunity to negotiate [because] the terms were reasonable," while 41 percent assumed they were not negotiable, *id*. at p. 9, the latter of which could be addressed with advance notice. Indeed, 55 percent of people presented with a noncompete before they accepted the offer thought it was reasonable and 48 percent thought they could negotiate it. *See Noncompete Agreements in the U.S. Labor Force* (n.27 *supra*).

Further, with full notice, workers can make the types of informed decisions about whether to accept a job or not, irrespective of whether they have the leverage to negotiate (for those who are not important enough to the employer to negotiate for). Those changes might eliminate not only the perceived direct problems with noncompetes, but the surmised spill-over effects, as well.

The Commission also raised that concerns that the "cognitive biases" exhibited by consumers "in the way they consider contractual terms . . . may be true of workers." Non-Compete Clause Rule, 88 Fed. Reg. at 3503 (NPRM at p. 84). The Commission theorizes that this may "explain why the imbalance of bargaining power between workers and employers is particularly high in the context of negotiating employment terms such as non-compete clauses." *Id*. However, the research that the Commission relies on shows that those concerns diminish and positive impacts of noncompetes emerge when employees are provided advance notice. It is also not true for the high percentage of workers who choose not to negotiate noncompetes, because they believe them to be reasonable.

The other concerns raised by the Commission are addressed elsewhere in this submission.

[261] This is similar to an approach implemented in Colorado last year. *See* Colo. Rev. Stat. § 8-2-113(4)(b).

- A **ban** on noncompetes in the limited circumstances where the relationship between the person subject to the noncompete and identifiable third parties (other than the new employer) is of the kind that must be given priority over the protection of the former employer's trade secrets and other legitimate business interests.[262]

- **Penalties** for companies that willfully violate the law.[263]

B. Limitations on Use to Only What Is Necessary

Recognizing that noncompetes are an important tool in the protection of trade secrets (and other business interests recognized by many states), the following are worthy of consideration in attempting to provide for agreements that are used only where needed and only in a non-overreaching way.

- Mandate the so-called "**purple pencil**" rule to address overly broad noncompetes. States take one of three general approaches to overly broad noncompetes: *reformation* (sometimes called "*judicial modification*," in which the court essentially rewrites the language to conform the agreement to a permissible scope); *blue pencil* (in which the court simply crosses out the offending language, leaving the remaining language enforceable or not); and *red pencil* (also referred

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[262] By way of example, attorneys typically may not be bound by noncompetes because they owe fiduciary duties to their clients, and those clients should not be denied the right to be represented by the attorney of their choosing. There are very few industries in which the arm's-length, economic relationship between the persons with whom an employee does business on behalf of an employer could be described in a similar manner.

[263] One of the concerns raised by the Commission is that some companies may use noncompetes knowing that they are unenforceable, or worse, that violate the law. Non-Compete Clause Rule, 88 Fed. Reg. at 3511 (NPRM at p. 115). While, somewhat ironically, this seems to be an issue in California – a state that does largely what the Commission is contemplating with the goal of avoiding the very result experienced in California – we are unaware of evidence of widespread use of noncompetes in violation of applicable laws. Nevertheless, a solution to the potential problem could be to require the payment of the employee's legal fees or to impose penalties for willfully using noncompetes that violate the statute. *See* Colo. Rev. Stat. § 8-2-113(8)(B) (Colorado); 820 I.L.C.S. § 90/30(d) (Illinois); Me. Rev. Stat. Ti. 26, c. 7, § 599-A(6) (Maine); RCW § 49.62.80 (Washington); D.C. Code § 32-581.04 (Washington, D.C.). To avoid adversely impacting small, less-sophisticated companies or other companies that make a good-faith mistake, any penalties could be tempered with a required showing of knowing, bad faith use, such as continued use after the company's noncompetes have been identified as violating any applicable limitations.

to as the "all or nothing" approach, which, as its name implies, requires a court to void any restriction that is overly broad, leaving nothing to enforce). Although in its new law, Massachusetts retained the reformation approach (which it and the majority of states have historically used), an equitable, middle-ground approach (which one Massachusetts state senator dubbed the "purple pencil" approach) is a hybrid of the reformation and red pencil approaches, requiring courts to strike the noncompete in its entirety unless the language reflects a clear good-faith intent to draft a reasonable restriction, in which case the court may reform it.

- Provide for "**springing**" (or "**time-out**") noncompetes. To encourage employers to limit their reliance on noncompetes, they must have a clear and viable remedy when an employee violates other (less-restrictive) obligations (such as a nondisclosure and nonsolicitation obligations), misappropriates the employer's trade secrets, or breaches their fiduciary duties to the employer. In Massachusetts and Rhode Island (copying Massachusetts), the new noncompete laws expressly allow courts to prohibit the employee from engaging in certain work when, based on the employee's breach of certain enforceable obligations, the court is convinced that the individual cannot be trusted to perform the work without continuing to violate their other obligations. We colloquially refer to these as "springing noncompetes" (or sometimes "time out" noncompetes) because they are not required of the employee in the first instance, but are only activated if the employee engages in certain unlawful behavior.

The signatories below wish to again express their great appreciation for the Commission's consideration of this submission and for taking on such an important and fraught issue. We again offer any other assistance that the Commission may find helpful, including providing additional real-world experience or assisting in the drafting of language for guidance or a revised rule.

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Attachments

The views and opinions expressed in this letter are those of the signatories in their individual capacity and do not necessarily reflect the views or opinions of their firms.

Appendix A

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Russell Beck is a business, trade secrets, and employee mobility litigator, nationally recognized for his trade secrets and noncompete experience. He is the immediate past President of the Boston Bar Foundation and, for over ten years, has also taught the course, *Trade Secrets and Restrictive Covenants*, at Boston University School of Law (a course he developed for the school). He was the lead advisor and drafter of the Massachusetts noncompete statute, and revised the Massachusetts Uniform Trade Secrets Act. In 2016, he was invited to the White House to participate in the working group discussions that led to the development by the White House of a Call to Action on noncompetes. He authored the books, *Trade Secrets Law for the Massachusetts Practitioner* (1st ed. MCLE, Inc. 2019) (covering trade secrets nationally, with a focus on Massachusetts law) and *Negotiating, Drafting, and Enforcing Noncompetition Agreements and Related Restrictive Covenants* (6th ed., MCLE, Inc. 2021) (covering Massachusetts noncompete law, with national information included). Russell is a frequent speaker, panelist, and author, and created the widely used and cited (and first of its kind) 50 state noncompete law survey chart (*Employee Noncompetes, A State-By-State Survey*) and 50 state trade secret law comparison chart (*Trade Secrets Acts Compared to the UTSA*). Russell is a member of the Steering Committee for the Sedona Conference's Working Group 12 (Trade Secrets), assisted the Uniform Law Commission's Covenants Not to Compete Drafting Committee, and has served as chair of the American Intellectual Property Law Association's Trade Secrets Committee. He also monitors changes to noncompete and trade secrets laws around the country, as detailed on the blog, *FairCompetitionLaw.com*. Russell has appeared on National Public Radio, PBS, the BBC World News Service, and been relied on as an expert on trade secrets and noncompetes by *The New York Times*, *The Wall Street Journal*, the White House, the Treasury Department, *Le Monde*, and many others, including in many studies and scholarly publications.

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Erika Hahn is a paralegal at Beck Reed Riden LLP. She provides extensive support on trade secret and noncompete matters nationally, and has been a substantial contributor and editor on multiple books and articles on noncompete law and trade secret law, as well as many other publications. Erika also tracks state and federal legislative noncompete and trade secret law developments around the country.

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Henson Adams is focused on counseling and defending clients in labor and employment and business matters. Henson takes a results-driven approach. Although he foremost believes in helping clients reduce risk of conflict, Henson is ready to fight for clients when a dispute does arise. He has represented clients in employment, environmental, and commercial litigation in both state and federal court.

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Janice Sued Agresti represents employers in high-stakes matters and high-profile employment litigation, including trade secrets and employee mobility litigation; discrimination litigation; whistleblower litigation, and retaliation litigation. Janice is also a trusted advisor to her clients and counsels on drafting, enforcing, and interpreting restrictive covenants, including non-competes. She also counsels on employment issues that impact businesses, including mergers and acquisitions, reductions in force, handbooks, performance management, contracts, and compliance with federal and locals laws.

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Clifford Atlas is a principal in the New York City, New York, office of Jackson Lewis P.C. He is the co-leader of the Restrictive Covenants, Trade Secrets and Unfair Competition practice group. Cliff works extensively with clients in developing and drafting employment contracts and restrictive covenant agreements, and developing programs to best protect clients' confidential information and business relationships. He has significant experience in prosecuting as well as defending actions involving breach of noncompetition and nonsolicitation agreements, employee raiding, misappropriation of confidential information, tortious interference with contract, unfair competition, and related business claims. Cliff also has assisted clients with restrictive covenant issues arising from corporate transactions. Additionally, Cliff handles all types of employment discrimination, harassment, wrongful discharge, and related employment claims. He has tried cases in state and federal courts, and before administrative agencies. Cliff has argued numerous appeals to the United States Court of Appeals for the Second Circuit, and the New York State Supreme Court, Appellate Division.

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Raymond P. Ausrotas is a Founding Partner of Arrowood LLP in Boston, Massachusetts. Ray is a graduate of Brown University and the George Washington University Law School. His practice is primarily focused on commercial litigation and business disputes, including in the areas of misappropriation of confidential information & trade secrets, and breach of fiduciary duty involving corporate officers and directors. Ray has twice been trial counsel on "Top Ten" verdicts awarded for the year in Massachusetts, including as first-chair on a favorable $16 Million verdict in 2019, which was the only business dispute among the Top 10 that year. He is the lead author of both Massachusetts Civil Trial Practice and Massachusetts Civil Pretrial Practice, which are published and regularly updated by LexisNexis. He has presented on statewide CLE panels, and written several articles on discovery and other topics (including noncompete law). Since 2014, Ray has been recognized annually as a "Top 100" SuperLawyer for both New England and Massachusetts in the area of Business Litigation; since 2016 he has been recognized nationally by Best Lawyers in the categories of Commercial Litigation and Litigation / Regulatory Enforcement (and "Lawyer of the Year" for Boston in the latter category in 2021). In 2015, he was inducted as a Fellow of the Litigation Counsel of America, a trial lawyer honorary society composed of less than one-half of one percent of American lawyers. Ray has also earned an AV®Preeminent™ Peer Review Rating from Martindale-Hubbell® in the categories of Litigation and Business Law."

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Eric s Co-Chair of Benesch's Labor & Employment Practice Group and Co-General Counsel of the Firm, maintains a national labor and employment practice which includes representing employers in all areas of employment and labor relations, as well as related employment litigation, before federal and state administrative agencies and in trial and appellate courts across the country.

Eric advises clients regularly concerning protecting trades secrets and confidential information as well as preventing unfair competition from former employees. Eric has significant first chair experience in protecting employers from unfair competition, litigating the enforceability of restrictive covenants and confidentiality agreements as well as misappropriation of trade secrets, including obtaining and opposing TROs, preliminary injunctions and damages awards.

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Jennifer S. Baldocchi is Co-Vice Chair of the Paul Hastings Employment Department and the Chair of the International Employee Mobility and Trade Secrets practice. Her practice focuses on employee mobility and intellectual property, including trade secrets, covenants not to compete, unfair competition, and fiduciary duties. She is ranked by Chambers USA, recognized by The Legal 500 US for trade secrets litigation and non-contentious matters, and recognized as both a Top Labor and Employment Lawyer and a Top Trade Secrets Lawyer by the Daily Journal. Ms. Baldocchi has significant trial experience. She litigates trade secret misappropriation claims, as well as disputes over restrictive covenants in employment-related agreements. She provides advice on best practices to protect and enforce intellectual property rights and restrictive covenants.

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Katheryn Bradley is a shareholder who co-chairs Lane Powell PC's Labor, Employment & Benefits Team. She is a management-side employment lawyer who has devoted her career to finding practical solutions for resolving workplace disputes. Katheryn is experienced in preparing and litigating executive employment agreements, covenants not to compete, and trade secrets and intellectual property agreements across multiple jurisdictions in the Pacific Northwest.

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Brandon Bundren is a trial lawyer who represents both plaintiffs and defendants in state and federal courts. Brandon's clients range from small businesses to numerous publicly traded companies.

While Brandon handles a variety of complex commercial cases, his practice is focused primarily on intellectual property and competitive practices litigation, including non-compete, trade secrets, patent, trademark, copyright, and similar unfair competition matters. Brandon is a published author on the subject of non-competition agreements and is a frequent speaker on unfair competition matters both to in-house counsel and to various associations, including the Tennessee Intellectual Property Association and the Nashville Bar Association.

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Mark Burak is a founding shareholder of Ogletree's Boston office and was the Boston office Managing Shareholder from 2014 until 2022. Mark has specialized in the representation of employers in labor and employment matters for over 30 years. Mark's practice focuses on defending employers in state and federal courts and before administrative agencies. Mark has successfully handled cases involving virtually the entire spectrum of employment related laws, with a particular emphasis on discrimination laws, pay equity and wage/hour matters. He has tried several cases successfully to conclusion and obtained dismissals or summary judgment on scores of claims. Chambers USA 2022 review notes that "Mark is very knowledgeable and a good speaker" and "he is a subject matter expert and offers great client service."

Mark has represented many of his clients for over a decade, and several for over 20 years. His clients span a number of industries, including high technology, healthcare, hospitality, manufacturing, financial services, and non-profit organizations, with a particular focus on employers in the life sciences space (Mark is the co-chair of Ogletree's Life Sciences Industry Group).

Mark earned his Bachelors of Business Administration from the University of Massachusetts in 1987 and his JD, magna cum laude, from Boston University School of Law in 1991.

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Jerry Cohen's law practice, teaching, writing/speaking and legislative testimony in several areas of intellectual property (IP) have a common theme of balancing interests based on transparency and truth. The balancing can occur as to scope and perfection of IP rights within just limits, enforcement with proportionality based on hard facts and permissible exploitation consistent with public interest. As applied to noncompetition covenants it is necessary to overcome ambiguity in defining valid employer and employee interests to be protected including proper definitions of fair and unfair competition and material injury to employers and employees tailored to circumstances of the parties. These have been and continue as the subjects of worthwhile professional and political engagement.

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Before founding Blue Pencil Box, Jonathan was a Knowledge Management Attorney for one of the largest employment law firms in the country, focusing on the law of non-competes and restrictive covenants. Jonathan practiced for several years as a litigator and counselor. He was responsible for prosecuting and defending against unfair competition claims in court and drafting national restrictive covenant agreements for clients across a broad range of industries and sizes.

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Jay counsels and represents clients regarding personnel matters (including policies development, administration and training), restrictive covenant matters (including implementation and enforcement), labor relations matters, discrimination claims and litigation, federal and state wage-hour matters, FMLA matters and unemployment compensation proceedings.

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Michael Elkon is a partner with Fisher Phillips. Michael practices in Atlanta and advised the Georgia Legislature on the bill that ultimately became Georgia's new Restrictive Covenant Act in 2010-11. Michael advises clients on restrictive covenant, trade secret, fiduciary duty, and computer theft issues throughout the country. Michael has also litigated dozens of such cases, representing both plaintiffs and defendants. Finally, Michael is a frequent writer and speaker on restrictive covenant issues, including with the Sedona Conference (where he served as a Contributing Editor on the Sedona Conference Commentary on Equitable Remedies in Trade Secret Litigation) and the American Intellectual Property Law Association.

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Jim Flynn is the Managing Director of Epstein Becker Green, and a lawyer with over 30 years' experience in noncompetition and trade secret matters during which he has represented various stakeholders, from departing employees to new employers to former employers. As an invited attorney advisor, he worked closely with the New Jersey Law Revision Commission before the state's 2012 adoption of its version of the Uniform Trade Secrets Act, and was co-lead counsel on the appeal and later successful trial in New Jersey's leading physician restrictive covenant case (*Community Hospital v. More*, 183 N.J. 36 (2005)). His practice regularly includes high-stakes trade secret and data theft cases, and other matters involving employee mobility and the migration of confidential and proprietary information. He is long-time co-author of the Thomson Reuters Practical Law summary of Noncompete Laws: New Jersey, and has spoken and written on such topics many other times over the course of his career, and continues to do so (including at the upcoming (in September) Practicing Law Institute's Noncompetes 2021, where he will speak on Managing a Key Employee Departure to Avoid the Loss of Trade Secrets, Customers, and Colleagues).

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Richard B. Friedman is the managing attorney of New York-based Richard Friedman PLLC, a seven lawyer firm which specializes in the following kinds of matters: counseling, drafting, and negotiating on behalf of executives and professionals in connection with separation, employment, and other executive compensation agreements; "switching side" a/k/a "lift out" employment litigation matters involving, among other things, non-compete, trade secret, and fiduciary duty issues where the firm represents one or more employees generally referred by the clients' new employer's law firm; commercial litigation cases, particularly in the New York County Commercial Division where he serves as one of fifteen or so judicially appointed trial lawyers on the Advisory Committee along with the eight judges of that court; negotiating and, where necessary, litigating business divorces among shareholders of closely held corporations, members of limited liability companies, and partners; internal investigations referred to the firm by a corporation's law firm so that it can reduce the likelihood of a motion to disqualify that firm as litigation counsel and improve its prospects of defeating any such motion; and FINRA arbitrations involving restricted stock units and other compensation-related issues on behalf of senior finance personnel against their former employers.

Mr. Friedman has been a legal commentator on CNN, FOX News, Fox Business, HLN, and several other major networks on employment-related issues. Mr. Friedman holds a B.A., magna cum laude (with distinction in all subjects), from Cornell University and a J.D. from the University of Chicago Law School. Mr. Friedman is the founding co-chair of the In-house/Outside Counsel Litigation Group of the NYC Bar Association (the "Association"). He is a former member of the Board of Directors of the New York County Lawyers Association ("NYCLA"), a member of the Executive Committee of the Commercial & Federal Litigation Section of the New York State Bar Association ("NYSBA"), and a former NYCLA delegate to the NYSBA House of Delegates.

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Mr. Fuhs has been selected as a Business Litigation, Trade Secret and Franchise Top Lawyer by DBusiness Magazine (2014-2022) and a Michigan Super Lawyer (an award recognizing no more than 2.5% of lawyers in Michigan) (2013-2022). He was also named to Crain's Detroit Business' 2012 Class of "40 under 40," which honors "the best and brightest in Southeast Michigan who have made their marks in business before age 40," as well as Oakland County's Elite 40 Under 40 Class of 2013, which includes young thought leaders and trailblazers who live or work in Oakland County and are under the age of 40.

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Nicole Gage is a Partner at Beck Reed Riden LLP with over 20 years of litigation and counseling experience in all aspects of intellectual property law and in relation to numerous industries. With an in-depth knowledge of IP law and its application, Nicole frequently teaches and advises companies and individuals on how to protect and enforce their respective intellectual property rights.

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Jim Gale is Co-Chair of Cozen O'Connor's IP Litigation department. He has been practicing Intellectual Property law and litigation for over 38 years, both as an outside lawyer in national and international law firms, and as General Counsel for an international medical device company. Jim was the inaugural chair of Florida's IP Board Certification Program. He has handled well over 400 injunctions in state and federal courts in over 35 different states in Trade Secret, Restrictive Covenant and employee "raiding" cases. In addition to multimillion dollar jury verdicts, and defense verdicts in "bet the company" litigation, Jim obtained a $2,300,000,000.00 judgment against a Chinese company that misappropriated his client's trade secret technology.

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Lee Gesmer is a founding partner of Gesmer Updegrove LLP. He has 40 years of experience in business and intellectual property litigation, which includes advising companies and employees on noncompete agreements and litigating and arbitrating noncompete disputes. He has presented educational programs on noncompete law before the Massachusetts and Boston Bar

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For more than 35 years, Scott F. Gibson has helped businesses protect themselves from unfair competition and disloyal employees. He does so through a unique position in the law, a position based on a blend of skills derived from his courtroom experience and from a deep understanding of the legal theories implicated by unfair competition. As a result, his clients are able to more effectively protect their intangible business interests.

Scott has an uncanny ability to quickly spot the most important issues in a case, which enables him to focus on ways to resolve rather than expand litigation. He is an effective advocate and a creative negotiator for his clients. His ability to spot critical issues has helped many clients bring cases to an early conclusion through negotiation or motion practice. When a case cannot be settled through legal motions or favorable negotiations, Scott is a well-prepared and effective trial attorney.

Scott also is the only lawyer you will ever meet with two advanced legal degrees in cutting-edge areas of the law: Biotechnology and Genomics (LLM from the Sandra Day O'Connor College of Law at Arizona State University in 2007) and Litigation Management (LLM from Baylor Law in 2021). As part of his studies in Litigation Management, Scott performed specialized research into changing the way lawyers think about legal dilemmas to help clients avoid those problems before they arise.

In addition to being a student of the law, Scott is a skilled teacher. Since 2008, he has taught a course in Trade Secrets and Restrictive Covenants at the Sandra Day O'Connor College of Law at Arizona State University. He regularly writes, speaks, and teaches on trial skills, intellectual property, and employment law issues, particularly regarding trade secrets and restrictive covenants.

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Anthony Haller is Partner at Blank Rome LLP and his practice covers all aspects of labor and employment law, with extensive experience in trade secret and non-compete litigation. He currently Co-Leads the firm's Trade Secrets & Competitive Hiring Practice. Anthony is recognized by Chambers USA and Chambers Global as a leader in labor and employment law. In both 2018 and 201, Anthony was named US Trade Secrets Lawyer of the Year by Financial Monthly. Anthony has litigated non-compete and trade secret cases in federal and state courts throughout the US and frequently advises clients on restrictive covenant and trade secret matters. Chambers quotes sources who say, "Anthony is just excellent at sorting out all our complex employee relations matters" and is "an excellent litigator who is very talented in trade secrets work". Anthony is a member of the firm's Partner Board, served on the firm's Executive Committee from 2010 to 2020, was Chair of the Labor and Employment Practice Group (2008–2013), and currently chairs the firm's International Alliances Committee. Anthony was called to the Bar of England and Wales in 1979 and practiced as a Barrister in England before coming to the United States. He is a Master of the Bench of Gray's Inn, London.

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Rob Isackson is a partner at Leason Ellis and an accomplished, front-line IP litigator and counselor. For the last twenty some years his day job has been litigating patents, trade secrets and non-disclosure agreements in diverse technologies, such as computer hardware and software, genetically modified corn and cotton, smart phones, hangers, luggage and fuzzy slippers, on both sides of the v. He has been trial team lead in over seventy cases filed in U.S. district courts in more than 20 states. Rob also translates his broad litigation experience to support clients with IP due diligence, freedom-to-operate opinions, procurement, and transactions. He approaches client service by working with the client to identify the problem in the business context, and then develop creative and cost-effective strategies and solutions that align with the client's business objectives to move its business forward.

Beyond client work, Rob serves as Pro Bono partner at the firm, is Immediate Past President of the New York Intellectual Property Law Association (NYIPLA) and has been active on the Intellectual Property Owners Association (IPO)'s Trade Secret and Amicus Committees. Rob has helped author over a dozen amicus briefs, including for NYIPLA or IPO, and regularly speaks on IP issues, from ethics to biosimilars.

Rob holds J.D. and B.S.E.E. degrees from the University of Michigan. Before law school, Rob fried circuits in an electronics design lab and crashed main-frame computers, worked in an auto assembly factory, and washed dishes at a Utah ski resort. These experiences encouraged him to meld his passion for technology and helping others with advocacy to become an IP lawyer.

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Adam Israel is a partner in Balch & Bingham's Birmingham office and member of the firm's Litigation Practice. He focuses on complex business litigation, primarily in the areas of business torts and unfair competition and banking and financial services. A substantial portion of Adam's practice is devoted to representing businesses and individuals in non-compete, non-solicitation, and theft of trade secrets cases in trial and appellate courts.

Adam is also regularly involved in complex litigation on behalf of highly-regulated businesses. For example, he has represented financial institutions in individual and class actions regarding, among other things, debit card processing and overdraft practices. Adam also regularly represents nuclear utilities in ongoing litigation against the federal government arising from the Department of Energy's delay in disposing of the nation's commercial spent nuclear fuel.

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Steve is a Member of the New York office of Rottenberg Lipman Rich, P.C. After graduating from the University of Virginia Law School, Steve spent the bulk of his career at Proskauer Rose LLP, including more than 30 years as a Partner. He has experience litigating disputes and advising clients in a diverse array of areas, including securities, bankruptcies and workouts, real estate, employment, contracts and business break-ups, and in a variety of industries, including financial services, consulting and entertainment.

Steve's particular area of expertise is intellectual property litigation, with a focus on disputes involving non-competes, trade secrets and the movement of employees from one company to a competitor. Steve founded Proskauer's Non-Compete & Trade Secrets Group and headed it for many years. He has written extensively about trade secrets and non-competes and has participated in and moderated many programs on those subjects. He has also served for eight years as an Adjunct Professor at Brooklyn Law School, teaching a class on trade secrets.

From the start of his career, Steve has been active in bar association affairs, including three years serving as Chair of the NYC Bar Association's Council on Judicial Administration. He is currently chairing the NYC Bar's Efficiency Working Group, which is dedicated to improving the efficiency of New York's and America's judicial systems.

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Paul Kennedy is a senior member and former co-chair of Littler Mendelson's Unfair Competition and Trade Secret practice group. A practicing trial lawyer for nearly four decades, Kennedy's focus is litigating non-compete and trade secret cases. He regularly speaks before trade associations and professional groups on these topics, and also has testified on multiple occasions about legislation concerning non-compete restrictions.

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Phillip C. Korovesis is a Shareholder practicing in Butzel's Detroit office. He is a graduate of Wayne State University (B.S., with distinction, 1984; J.D., *cum laude*, 1987). He is also a graduate of Leadership Oakland, Class XVIII, and has been recognized by *Michigan Super Lawyers* (Business Litigation) and the *Best Lawyers in America* (Commercial Litigation).

Mr. Korovesis' practice is focused on commercial disputes, with trial, litigation and consultation expertise in non-compete/trade secret disputes, product liability defense, life insurance claims and business and financial services industry disputes. Mr. Korovesis has successfully tried cases in state and federal courts in various parts of the country and has successfully represented clients in state and federal appellate courts. He has successfully arbitrated cases before the American Arbitration Association and The Financial Industry Regulatory Authority.

Mr. Korovesis is the former Litigation Practice Group Leader and currently serves as the Chair of the Firm's Trade Secret and Non-Compete Specialty Team which focuses on trade secret, non-compete and business tort litigation. Mr. Korovesis is a regular presenter on trade secret and non-compete issues to lawyers and other professionals. He is an active member of the Defense Research Institute in the commercial litigation, product liability and life insurance areas. He is a former President of the Michigan Defense Trial Counsel. He is a member of the State Bar of Michigan, the Federal Bar Association and the American Bar Association.

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As chair of Nutter's Labor, Employment and Benefits practice, Chris Lindstrom advises clients on all aspects of non-competition agreements, from crafting nationwide restrictive covenant programs for employers to litigating non-compete agreements on behalf of both employees and employers. He has handled cases involving non-compete agreements in federal and state courts in almost half the states across the country. Lindstrom works with companies of all sizes, from several in the Fortune 100 to emerging businesses, with a particular focus on life sciences and financial services.

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Isaac Linnartz is a partner with Smith Anderson in Raleigh, North Carolina and serves a co-leader of its Non-Compete and Trade Secrets practice group. In that capacity, he has experience drafting, assessing, and litigating non-compete, non-solicit, and confidentiality provisions, including litigating requests for emergency injunctive relief. He also represents companies in high stakes litigation involving complex contracts, trade secret and confidentiality disputes, and various business torts. In addition, he routinely represents employers defending against claims of discrimination, retaliation, harassment, wrongful termination, and wage and hour violations.

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Aaron D. Lovaas is a partner in Las Vegas office of Newmeyer & Dillion. As a transactional business law attorney and business litigator for nearly 30 years, Aaron helps his clients understand their options in tackling both business opportunities and challenges. Unique to

Aaron's experience is his deep blend of transactional and litigation skills, enabling him to spot the legal issues from the perspectives of both a transactional attorney and litigator. Aaron also brings to the table his perspective as a business owner, having owned and managed his own boutique law firm for twelve (12) years. Aaron has substantial experience representing both transactional and litigation clients across the business spectrum in industries as diverse as real estate development, construction, manufacturing, telecommunications, financial services, nightclub management, and petroleum franchising, utilizing his additional perspective as an MBA to provide his clients with comprehensive advice. Aaron's practice frequently involves non-compete and trade secret issues.

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Allan N. MacLean is the owner and founder of MacLean Employment Law, P.C. based in Cambridge, Massachusetts. Mr. MacLean has practiced employment law for approximately 17 years. A substantial portion of Mr. MacLean's practice focuses on counseling clients (individuals and companies) in connection with the preparation and enforcement of restrictive covenant agreements, including provisions concerning non-competition, non-solicitation, non-disclosure, and trade secret protection.

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Caren was named a Florida Rising Star in 2010, 2011, 2012, 2013, 2014, 2015 and 2019. She also received awards as 2018 and 2021 Florida Legal Elite and was selected as one of the *Best Lawyers in America* every year since 2019.

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John advises and represents a wide range of clients in many industries, from Fortune 500 companies to individuals, in trade secret and restrictive disputes throughout the United States. As Chair of the American Intellectual Property Law Association's Trade Secret Law Committee, John was actively involved in providing comments and supporting the enactment of the Defend Trade Secrets Act, the federal statute that *The Wall Street Journal* called the "most significant expansion" of federal IP law in 70 years. John has written and presented on trade secret and restrictive covenant issues and he has been quoted on those issues by *The Wall Street Journal*, *Wired*, *Inside Counsel, Law360, The National Law Journal*, *Managing IP* and *Wired*; and his blog, "The Trade Secret Litigator" (www.tradesecretlitigator.com), has been cited by publications including *The Wall Street Journal*. John is listed in the 2016-2020 editions of *The Best Lawyers of America* for Litigation – Intellectual Property and in the 2009-2020 editions of *Ohio Super Lawyers*. John graduated in 1986 from John Carroll University and is a 1989 graduate of Vanderbilt Law School.

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Jeff Mayes is a shareholder in the Houston office of Ogletree, Deakins, Nash, Smoak & Stewart, P.C. and a member of the firm's Unfair Competition and Trade Secret practice group. Throughout his 26 years of labor and employment law practice, Jeff has regularly and successfully litigated cases in state and federal court involving unfair competition, restrictive covenants, trade secrets, and tortious interference. Jeff regularly counsels clients on the applicability, construction and enforcement of their employment policies and agreements, including those protecting confidential information, customer relationships and talent investments. Jeff has been Board Certified in Labor and Employment Law by the Texas Board of Legal Specialization since 2002.

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Melissa McDonagh is a shareholder with Littler Mendelson, P.C., and the Co-Chair of Littler's Unfair Competition and Trade Secrets Practice Group. She has extensive experience representing employers, on both the prosecution and defense side, in actions involving unfair business competition around the country. To protect valuable company assets, Melissa works with employers to draft multi-state compliant restrictive covenant agreements to fit a company's unique needs. Her experience includes working with companies of all sizes in a variety of industries, such as technology, medical devices, biopharmaceutical, consulting, insurance brokerage, and staffing and recruiting.

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Mr. McDonald is a Shareholder in Littler Mendelson PC. He graduated from the University of Texas School of Law in 1987 and has spent the vast majority of the past 30 years of his legal career focused on labor and employment law issues with a concentration in unfair competition and trade secret disputes. He is the author and editor of numerous books and scores of articles related to the subject, including *Unfair Competition and Intellectual Property Protection in Employment Law*, Bloomberg BNA, McDonald & Johnson (2014), and *Drafting and Enforcing Covenants Not to Compete*, Bloomberg BNA, McDonald & Lichty (2009). He is a Co-Founder of Littler's Unfair Competition and Trade Secret Practice Group, a group that was recognized in Lex Machina's July 18, 2018, Trade Secret Litigation Report as having handled more trade secret cases (for plaintiffs and defendants) between 2009 and 2018 than any other firm in the nation. Mr. McDonald has served on committees authoring revisions to the Texas noncompete statute, and served as an Advisor in the drafting of *Restatement of the Law – Employment Law* (ALI 2014). He has also participated in many precedent setting cases such as *Alex Sheshunoff Management Services, L.P. v. Johnson*, 209 S.W.3d 644, 648 (Tex. 2006) (as amicus curia for the Texas Assoc. of Businesses, helping correct a 10+ year misinterpretation of the Texas noncompete statute), *In Re Hewlett Packard*, 212 S.W.3d 356 (Tex. App. 2006) (establishing a new defense to pre-suit depositions in trade secret cases), and *Quantlab Technologies Ltd. v. Godlevsky*, 317 F.Supp.3d 943 (S.D. TX 2018) (establishing the standard for a large award of attorneys' fees in a trade secret case, and ultimately securing in excess of $40 million in total judgments for Quantlab after jury trial and appeal). Mr. McDonald has been consistently recognized by clients, press and his piers for exceptional service to the law and his clients. His recognition includes: BTI's Client Service All-Star Team; Best Lawyers in America (2006 - 2020) (Lawyer of the Year - Employment Law DFW (2013), Lawyer of the Year - Labor Law DFW (2015, 2017)); Law.com and Texas Lawyer ("*Dallas Lawyer Preserves $12.2M Trade Secrets Verdit at the 5th Circuit*," June 28, 2017); and Chamber's USA's America's Leading Lawyers for Business (2012 – 2019) which describes him as having "made a name for himself in the noncompete arena"). Mr. McDonald has a national practice that involves handling cases all across the nation and regularly advising clients on national unfair competition prevention and trade secret programs related to every state in the United States. He is past Chair of the Dallas Bar Association's Labor & Employment Law Section, and is Board Certified in Labor and Employment Law by the Texas Board of Legal Specialization.

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Paul M. Mersino is a Shareholder in the Detroit office of Butzel. He is the President and CEO of Butzel (effective March 2023) and serves on the firm's Board of Directors. Prior to joining the firm's Board, he served as the Chair of the Litigation Practice Department. Mr. Mersino represents public and private companies, both as plaintiff's attorney and defendant's attorney, in a number of areas including complex commercial litigation, contract disputes, non-competition and trade secret disputes, automotive supplier disputes, construction litigation, and First Amendment litigation. Mr. Mersino also represents and advises a number of Startup companies, assisting them with their legal needs and matching them with potential venture capital funding. Mr. Mersino also handles appeals in the Michigan Court of Appeals, the Michigan Supreme Court, and in federal courts across the country. He has been recognized as a *Michigan Super Lawyer*, as a Top Lawyer by *dBusiness Magazine*, as one of Oakland County's Elite 40 under 40, as one of *dBusiness's* "30 in their 30s," and as an "Up and Coming Lawyer" by *Michigan Lawyers Weekly*.)

Mr. Mersino is admitted to the State of Michigan, the United States District Court for the Eastern District of Michigan, the United States District Court for the Western District of Michigan, the 6th Circuit Court of Appeals, the 8th Circuit Court of Appeals, the Supreme Court of the United States, and has been admitted on a temporary basis in several state and federal courts across the United States.

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Dawn Mertineit is a litigation partner in Seyfarth's Trade Secrets, Computer Fraud and Non-Competes practice group. For more than a decade, Dawn has represented corporations and their directors and officers in a number of industries in complex commercial litigation, with special emphasis on noncompete and trade secrets litigation. She understands that many clients rely on noncompete and nonsolicitation agreements to protect their most valuable assets, while others face hurdles in recruiting and onboarding new employees bound by such restrictive covenants. Dawn brings her experience and knowledge of state and federal laws to help her clients navigate these issues, from drafting agreements and executing rollout and enforcement strategies, to analyzing competitor agreements and proposing recruitment and onboarding plans, and prosecuting or defending against claims related to breach of restrictive covenants or misappropriation of trade secrets. Dawn represents clients in trade secret and noncompete matters in a number of jurisdictions. This cross-state knowledge is particularly critical, as states continue to pass new legislation relevant to restrictive covenants and trade secrets. As the co-editor of and a frequent contributor to Seyfarth's award-winning Trading Secrets blog, Dawn remains current with new laws and key developments in this space, and provides clients with crucial updates about the laws that affect their businesses. In light of her thought leadership, Dawn has been quoted in a number of legal and industry publications, including Bloomberg Law, The American Lawyer, Law360, Massachusetts Lawyers Weekly, and SC Magazine.

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Robert Milligan is a partner at Seyfarth Shaw and co-chairs Seyfarth's Trade Secrets, Computer Fraud & Noncompetes practice group. Robert's practice encompasses a wide variety of commercial litigation and employment matters, including general business and contract disputes, unfair competition, trade secret misappropriation, and other intellectual property theft. His practice focuses on trade secret, noncompete, and data protection litigation and transactional work on a state, national, and international platform. His experience includes trials, binding arbitrations and administrative hearings, mediations, as well as appellate proceedings. Robert also provides advice to clients concerning a variety of business and employment matters, including nondisclosure, noncompete, and invention assignment agreements, corporate investigations, trade secret and intellectual property audits. He is an active in several leading trade secret organizations/committees, including within the ABA, State Bar of California, and Sedona Conference.

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Timothy P. Monsma is a partner in the Grand Rapids office of Varnum, LLP, a Michigan-based firm with eight offices throughout Michigan and Florida. Mr. Monsma's practice focuses on commercial litigation, with a particular emphasis on trade secret disputes, unfair competition, and litigation involving restrictive covenants. He has represented clients on all sides of these disputes in hundreds of cases throughout Michigan and across the country, securing numerous multi-million dollar recoveries. He has consistently been recognized by Michigan Super Lawyers and was named a Top Lawyer by Grand Rapids Magazine in both the commercial litigation and trade secret litigation categories. Mr. Monsma regularly publishes and presents to business groups on matters relating to data privacy, trade secrets, and enforcement of restrictive covenants.

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Laura O'Donnell is a Partner at Haynes and Boone, LLP where she co-chairs the firm's Litigation Practice Group. Laura is board certified in labor and employment law by the Texas Board of Legal Specialization. Laura regularly handles trade secret, noncompete and other restrictive covenant litigation, and Laura also drafts executive and other agreements that include restrictive covenants, in both the employment and sale-of-business contexts. Laura's many professional accolades include recognition in Chambers USA, Chambers and Partners, for labor and employment in Texas since 2017, as well as previous recognition by Chambers USA as an "Up and Coming Leading Business Lawyer." Laura was named "Lawyer of the Year" in 2016, 2018 and 2023 for labor and employment litigation in San Antonio, Texas and Best Lawyers, Woodward/White, Inc., has recognized Laura since 2011. Laura has also been selected for inclusion in the Lawdragon 500 Leading U.S. Corporate Employment Lawyers listing, Lawdragon Inc. since 2021 and has been recognized by Texas Super Lawyers, Thomson Reuters, since 2010, and as a Texas Super Lawyer Rising Star, from 2004-2010. Laura is listed as an AV Preeminent Lawyer by Martindale Hubbell Law Directory and received the San Antonio Business Journal, American City Business Journals, "40 Under 40 Rising Stars" award in 2006.

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William O'Toole founded O'Toole Law Group in 2009 after serving as counsel to healthcare technology leader Medical Information Technology, Inc. for nearly 20 years and is widely considered among the most experienced attorneys in this field, having represented or negotiated with roughly 25% of US hospitals, 40% of Canadian hospitals, and hundreds of software technology vendors both domestic and international. His extensive experience with healthcare organizations, vendors, and associated legislation has provided keen insight and guidance in the furtherance of innovation in health technology through carefully crafted complex software licenses, referral agreements, reseller collaborations, development agreements, government projects, mergers and acquisitions, as well as domestic and international distribution agreements for both emerging and established software companies. O'Toole proudly serves as mentor and judge to incubator organizations such as MassChallenge, on corporate advisory boards, and as outside general counsel to outstanding health technology companies. He graduated from Noble and Greenough School and holds degrees from the University of Notre Dame (Economics) and Suffolk University Law School.

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Eric Ostroff is the managing partner of Meland Budwick, P.A., where he co-chairs the firm's Trade Secrets and IP practice group. He focuses his practice on trade secrets and noncompete/restrictive covenant litigation, representing both plaintiffs and defendants in these matters, throughout the country. He has written and spoken extensively about trade secrets and restrictive covenants and is frequently sought out by the media for commentary on these issues.

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Eric Packel chairs his Firm's trade secret and restrictive covenants practice group. During the course of his career, Eric has tried jury trials to verdict in five states, as well has argued and handled numerous bench trials and injunction hearings on both the enforcement and defense side. Eric has been recognized by Best Lawyers in America and Benchmark Litigation in the area of Employment Law. Eric's trial practice has focused primarily on the enforcement and defense of restrictive covenants and trade secrets for more than a decade.

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Recognized by the Boston Business Journal as a "40 Under 40" honoree in 2020, a "Top Lawyer Under 40" by the Hispanic National Bar Association in 2019, and a Super Lawyers Rising Star in Massachusetts every year since 2013, Christopher M. Pardo represents a broad range of corporate clients nationwide in complex employment litigation and high-stakes commercial lawsuits. A member of the bar in Massachusetts, Florida, New York, Connecticut, Ohio and Maine, Chris represents businesses and their executives across a broad spectrum of industries, providing timely and thoughtful preventative advice to his clients, with a particular focus in the areas of trade secret litigation and restrictive covenant agreements. Additionally, Chris oversees and manages labor and employment diligence in M&A matters, and regularly advises clients with respect to strategic business planning and handling multifaceted employment situations. Chris is the Co-Chair of the Hispanic National Bar Association's Labor and Employment Committee, a member of the Boston Bar Association's Labor and Employment Steering Committee, and the Co-Chair of the Minority Lawyers Subcommittee at Hunton Andrews Kurth.

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Matthew H. Parker is a partner at Whelan Corrente & Flanders LLP in Providence, Rhode Island (a boutique law firm representing some of the largest unionized and non-unionized employers in the State of Rhode Island), the current Chair of the Rhode Island Bar Association's Labor Law & Employment Committee (although he only signs this letter in his individual capacity), and an experienced drafter and litigator of non-compete, non-solicitation, and non-disclosure agreements. He has successfully represented both employers and employees in non-compete disputes in numerous state and federal courts (at the injunction stage and trial), he frequently counsels clients on the enforceability of restrictive covenants, and he helps clients to navigate non-compete issues when doing business in multiple jurisdictions on a near daily basis.

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Kevin Passerini is Partner at Blank Rome LLP and his employment practice includes a nationwide concentration on preventing and litigating disputes between competitors or with employees involving trade secrets, restrictive covenants, allegations of corporate raiding, breaches of fiduciary duty, and unfair competition, as well as mitigating risks with lateral recruiting in those contexts. Kevin's practice also includes counseling clients on protecting trade secrets and other valuable information through drafting and implementing confidentiality and restrictive covenant agreements with employees and contractors, including in equity and incentive plans, and Kevin is regularly brought in as a specialist for M&A and other corporate or financing deals where restrictive covenants and provisions protecting trade secrets arise.

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Dean has been practicing intellectual property law for more than 25 years and focuses on leveraging patents and trade secrets. Dean's litigation, trial and appellate experience includes experience in federal and state courts and at the International Trade Commission. Dean represented Amsted Industries, the prevailing trade secret owner, in *TianRui v. ITC*, 661 F.3d 1322 (Fed. Cir. 2011). Dean is a member of the Illinois bar, a registered U.S. patent attorney, a member of the Trial Bar for the Northern District of Illinois and actively involved with the American Intellectual Property Law Association (Trade Secret Law Committee) and Sedona Conference (Working Group 12 on Trade Secrets; Steering Committee Member, 2021-2023).

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Paul Peralta is a member at Moore & Van Allen, PLLC who focuses on employment litigation. For more than 30 years, Mr. Peralta has litigated a wide array of employment matters in federal and state courts throughout the country. His practice has included both enforcement of and defense actions against restrictive covenant agreements and related trade secret and unfair competition claims. In addition, based on his bi-lingual background, he has represented clients in extensive matters in Latin America. For more than 20 years he has served as an adjunct faculty member teaching courses on unfair competition and trade secrets at the University of Notre Dame Law School. He has been named in Best Lawyers in America and Super Lawyers for the past ten years.

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Jim Pooley focuses on trade secret law and management, as an advocate, advisor, testifying expert and neutral. He is an author or co-author of several major IP works, including his treatise *Trade Secrets* (Law Journal Press) and the *Patent Case Management Judicial Guide* (Federal Judicial Center). His most recent business book is *Secrets: Managing Information Assets in the Age of Cyberespionage* (Verus Press 2015). The Senate Judiciary Committee relied on Jim for expert testimony and advice regarding the 2016 Defend Trade Secrets Act. From 2009 to 2014 Jim served as Deputy Director General of WIPO in Geneva, where he managed the international patent system. He is a past President of AIPLA and Chairman of the National Inventors Hall of Fame. He is Chair Emeritus of the Sedona Conference Working Group 12 on Trade Secrets. In 2016 Jim was inducted into the IP Hall of Fame for his contributions to IP law and practice.

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Lauri Rasnick is a partner with Epstein Becker Green and has been practicing law for twenty five years. Lauri focuses her practice on representing employers with respect to a broad range of issues. Among other things, Lauri advises companies on drafting non-competition, non-solicitation and confidentiality agreements and assists employers in hiring employees who are subject to restrictive covenants. She also regularly litigates and arbitrates employment cases including non-compete and trade secret matters in state and federal courts and arbitral forums. Lauri frequently speaks and write on trade secrets and restrictive covenants.

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Diane Saunders is a Shareholder in the Boston office of Ogletree, Deakins, Nash, Smoak & Stewart, P.C. Ms. Saunders is the Co-Chair of the firm's Retail Industry Group, a member of the Class and Collective Action Practice Group's Steering Committee, and a member of the Wage and Hour and Pay Equity Practice Groups. Ms. Saunders has been helping employers solve their employment issues and disputes for over 20 years. Representative matters include sexual harassment, pay equity, wage and hour, trade secret and non-competition issues, discrimination, retaliation, workplace torts and contract disputes. Ms. Saunders has significant expertise in defending class and collective actions. Ms. Saunders defends class and collective action suits alleging violations of the Fair Labor Standards Act, the Equal Pay Act, and Massachusetts wage and hour laws, including the Massachusetts Tips Law and the Massachusetts Independent Contractor Law.

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Lauren Schaefer focuses her practice on management side employment counseling and litigation, with a specialty in employee mobility, restrictive covenants, and trade secret matters. Her practice involves helping to identify and protect a company's valuable trade secrets, and assists in designing, implementing, and maintaining trade secret policies and protections within the construct of the federal Defend Trade Secrets Act, the Uniform Trade Secrets Act, and related state laws. Lauren also represents companies seeking to protect and enforce their trade secret and noncompete rights, as well as defend companies and individuals who are accused of trade secret misuse and misappropriation.

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Tobias Schlueter is the Managing Shareholder of the Chicago office of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. He is also the Co-Chairperson of Ogletree's international Unfair

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Mr. Shapero is an attorney/shareholder in the Seattle office of Ogletree Deakins, where he serves as outside legal counsel to employers of all sizes, both for-profit and not-for-profit, across a wide range of industries, including manufacturing, food-service and hospitality, healthcare, transportation, insurance, financial services, software development and retail. Mr. Shapero is an experienced civil litigator, trial attorney and counselor/advisor in all areas of employment law, and his civil litigation practice includes both single-plaintiff and class-action litigation.

Mr. Shapero has assisted clients in dozens of trade secret, non-competition and non-solicitation advice and litigation matters in Washington State and in various other locations throughout the country. Although Mr. Shapero's litigation practice is primarily focused on defending employers against workplace discrimination and wrongful termination claims, his work on trade secret matters is evenly divided between plaintiff and defense work. Thus, Mr. Shapero is sometimes seeking to enforce or uphold non-compete, non-solicit, confidentiality or trade-secrets agreements and to hold individuals accountable for violating such agreements or obligations, and at other times is seeking to defend individuals or companies that have been accused of breaching such agreements or otherwise violating their legal obligations.

Mr. Shapero obtained his law degree from the DePaul University College of Law in Chicago, Illinois after first earning his Bachelor of Arts and Master of Business Administration degrees from California State University, Northridge.

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Robert Shea is a labor and employment lawyer who has represented businesses and individuals in noncompete matters for over 35 years. For the past 20 years he also has acted as neutral in employment disputes and serves on arbitrator and mediator panels of both the American

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John Siegal is a Chambers-ranked business trial lawyer. He is a New York-based partner with BakerHostetler and co-head of the firm's national Noncompete & Trade Secrets Practice Group. He was the founding chair of the Trade Secrets Committee of the New York City Bar Association, a former member of the Sedona Conference Working Group on Trade Secrets and previously served as a PLI Program Chair on Protecting Corporate IP Assets: Enforcing Restrictive Covenants in the Employment Context. He has litigated noncompete and trade secrets cases in federal or state courts in more than a dozen states, frequently handles noncompete and related arbitrations at FINRA, and recently obtained a $65 million plaintiff's judgment in a large group raiding jury trial. His writings on trade secrets and noncompete issues have been published in the New York Law Journal, the National Law Journal, as well as in various trade publications and an academic law review.

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Jeffrey S. Siegel is a partner and member of the Management Committee at Morgan, Brown & Joy, LLP. Morgan, Brown & Joy, LLP is the oldest and largest management-side employment law firm in New England. A significant portion of Mr. Sigel's practice involves drafting restrictive covenants, and litigating restrictive covenant claims and other claims of unfair competition. Mr. Siegel has appeared in federal and state courts, before government agencies including the EEOC, MCAD, Department of Labor, Attorney General's Office, and state anti-discrimination agencies across the country. Mr. Siegel also counsels employers on day-to-day human resources matters, including workplace investigations, employment policies and handbooks, drug testing, commission plans, employment agreements, and employee leave issues. After graduating law school, Mr. Siegel clerked at the Massachusetts Appeals Court. Prior to joining Morgan, Brown & Joy, LLP, Mr. Siegel was an attorney in the labor and employment department at a large Boston firm, and then in-house employment law counsel for a large bank.

Abraham Y. Skoff
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Abraham Y. (Avi) Skoff is a trade secrets, noncompete, unfair competition and complex civil litigation litigator, who has represented parties throughout the country on all sides of these matters, as well as in healthcare related business litigation, product liability/toxic tort and other disputes. Avi is a Partner and Chair of Moses & Singer's Trade Secrets, Noncompete & Unfair Competition Practice, and has been involved in a number of major, newsworthy cases. He served as Assistant U.S. Attorney and Deputy Chief of the Civil Division, U.S. Attorney's Office, Eastern District of New York, and is Co-Chair of the Trade Secrets Committee of the New York City Bar Association. Avi is a member of the Sedona Conference Working Group on Trade Secrets and was a Contributing Editor on the Sedona Conference Commentary on Monetary Remedies in Trade Secret Litigation.

Peter A. Steinmeyer
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Peter A. Steinmeyer is the Managing Shareholder of Epstein Becker Green's Chicago office and a co-chair of its Trade Secrets and Employee Mobility subpractice group. He frequently writes and speaks about workforce mobility issues, and he advised the Illinois Chamber of Commerce in its negotiations over the recently passed Illinois noncompete reform bill. Mr. Steinmeyer's recent publications include: "Illinois Noncompete Reform Balances Employee and Biz Interests" (coauthor), *Law360* (June 2021); "Hiring from a Competitor: Practical Tips to Minimize Litigation Risk" (coauthor), *Thomson Reuters Practical Law* (May 2021); and "Trade Secrets.

Carson H. Sullivan
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Carson Sullivan is a partner in the Employment Law practice of Paul Hastings and is the chair of the Washington, D.C. Employment Law Department. Ms. Sullivan represents employers in all aspects of employment law, with an emphasis on the defense of class and collective action suits and litigation involving trade secrets and restrictive covenants. She is a member of the firm's Employee Mobility and Trade Secrets practice group as well as the Pay Equity practice group.

Christopher Tackett
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Chris Tackett is a Member/Partner in the Litigation practice group at the law firm of Bailey Cavalieri in Columbus, Ohio. Chris focuses his practice on commercial litigation matters involving complex contract disputes, trade secrets and other types of intellectual property, including claims of copyright or trademark infringement, and other unfair competition matters, including disputes regarding non-solicitation or non-compete agreements between businesses and high-level employees, as well as business breakups and various types of partnership/shareholder disputes. In the course of his business litigation practice, Chris has represented companies in courts throughout the country, and in state and federal courts all across Ohio, as First-Chair counsel in numerous hearings on preliminary injunctions and other substantive evidentiary hearings, trials, and appellate oral arguments.

Chris is a frequent writer and lecturer on topics relating to business torts and unfair competition, employment litigation, and procedural issues affecting complex litigation, including numerous articles nationally published in periodical journals of the American Bar Association. Additionally, Chris previously served as Editor of the Business Torts & Unfair Competition Quarterly Journal for the ABA's Litigation Section, and now serves as the Vice-Chair in charge of content and programming for the Section of Litigation's Business Torts and Unfair Competition Committee.

Sarah Tishler
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Sarah Tishler is a senior counsel at Beck Reed Riden LLP, a nationally-recognized boutique litigation firm based in Boston, Massachusetts. Ms. Tishler's practice is concentrated on trade secret and restrictive covenant advising and litigation, employee mobility, and commercial litigation. Ms. Tishler has won successful outcomes for clients on both sides of these disputes in all stages of litigation, including the preliminary injunction stage, jury trials, and mediation. Ms. Tishler has also counseled clients on the identification and protection of trade secrets, and the enforceability of noncompetes and other restrictive covenants.

Peter J. Toren
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Peter J. Toren is a litigator with over 30 years of experience, who has successfully represented clients in a variety of matters in venues all over the United States at trial and appellate levels. He has a strong focus on patent, trademark, copyright, and trade secret cases.

Peter has represented clients in patent litigation involving a variety of technologies including computer software and hardware, light emitting diodes, bio-technology, semiconductor manufacturing and fabrication, optics and medical devices as well as business methods. He has successfully obtained and defended motions for preliminary injunctions and summary judgment motions involving the Patent Act, Copyright Act, Lanham Act, Digital Millennium Copyright Act and Computer Fraud and Abuse Act. In addition to intellectual property litigation. He also has experience in computer law including cybersecurity.

Before moving back to the D.C. area, Peter was a partner in the New York office of Sidley Austin. Before that, he was a federal prosecutor with the Computer Crime and Intellectual Property Section ("CCIPs") of the Criminal Division of the United States Department of Justice where he worked for over eight years and also served as Acting Deputy Chief.

Christine Bestor Townsend
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Christine Bestor Townsend is a shareholder in the Chicago and Milwaukee offices of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. She serves on the steering committee for Ogletree's international Unfair Competition and Trade Secrets practice group. Ms. Bestor Townsend litigates cases involving unfair competition claims (including restrictive covenants (noncompete, nonsolicit and confidentiality), trade secrets, duties of loyalty, tortious interference, and civil conspiracy). She also partners with clients to craft and tailor their restrictive covenant strategies. Ms. Bestor Townsend was named a Super Lawyers Rising Star from 2014-2020.

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Sean Urich is a Shareholder in the Dallas office of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. He serves on the steering committee of Ogletree's international Unfair Competition and Trade Secrets practice group. Mr. Urich's practice is focused on litigating cases involving the enforcement of restrictive covenants, trade secret theft, breach of the duty of loyalty, tortious interference, and various other claims related to unfair competition. He also advises clients daily on the implementation and enforcement of non-competition agreements and strategies for protecting company trade secrets. Mr. Urich was named one of the *Best Lawyers in America* in 2021, 2022, and 2023 for Litigation – Labor and Employment.

Danielle Vanderzanden
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Dani Vanderzanden is an information security and employment lawyer whose trial practice focuses on the myriad of ways, whether entirely innocent or wholly nefarious, that employees compromise the integrity of employer systems, data, and proprietary information. She successfully represents clients on each side of these issues in cases involving restrictive covenants, intellectual property disputes, claims under the Computer Fraud and Abuse Act, the Defend Trade Secrets Act (and its state analogues), and she defends employers in facing claims arising under state and federal anti-discrimination and wage payment laws. She obtained a complete defense verdict following a four-day Zoom trial that took place (virtually) in Bristol Superior Court in October 2020, and she regularly practices in the state and federal courts in Maine, Massachusetts, New Hampshire and Vermont. She is a member of The Sedona Conference Working Group Series, which recently prepared the "Commentary on Protecting Trade Secrets Throughout The Employment Life Cycle." She regularly speaks on trade secret, cybersecurity, and employee mobility issues before industry groups and legal organizations and at conferences, roundtables, webinars, and seminars.

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Jason Weber is a Dallas-based shareholder at Polsinelli and a member of the firm's Restrictive Covenants, Enforcement and Trade Secrets (RCETS) practice. Jason is Board Certified in Labor and Employment Law by the Texas Board of Legal Specialization and focuses his practice on business disputes and employment-related consulting and litigation. He has extensive experience enforcing and defending against restrictive covenants, both in Texas and nationally, and is a contributing author in the *Texas Litigator's Guide to Departing Employee Cases* (2022).

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Erik Weibust is a Partner in the Boston office of Epstein Becker & Green, P.C., where he is Vice Chair of the firm's Trade Secret & Employee Mobility practice group. Many of the world's leading pharmaceutical, biotech, medical device, technology, financial services, staffing, and insurance companies look to Erik for thoughtful and practical advice concerning how best to protect their trade secrets and customer relationships from misappropriation by former employees, ex-business partners, competitors, and hostile actors in the United States and abroad, and to avoid liability when hiring from competitors. When necessary, clients rely on Erik for aggressive representation in litigation, where he has won substantial victories in court and at the negotiating table, including broad-reaching injunctive relief and multimillion-dollar payouts, in trade secret misappropriation, unfair competition, and breach of restrictive covenant cases. Erik regularly publishes articles and speaks locally and nationally about trade secret and restrictive covenant law, and he has been quoted on these topics in publications such as *The Washington Post*, *Blomberg*, *Law360*, *Business Insurance*, *HR Dive*, and *Ignites* (*Financial Times*).

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Neal F. Weinrich is a shareholder at Berman Fink Van Horn P.C. in Atlanta, Georgia. Neal represents employers and employees, as both plaintiffs and defendants, in disputes involving noncompetes, customer nonsolicits, nonrecruits, and nondisclosure covenants. Neal has litigated restrictive covenant and trade secret disputes involving numerous industries throughout Georgia and in jurisdictions across the country. Recognized by Super Lawyers since 2012 and Best Lawyers since 2021, Neal writes and speaks frequently on issues that arise in competition-related cases and is the co-founder of and a regular contributor to Berman Fink Van Horn's Noncompete & Trade Secrets blog.

Neal currently serves as Chair of the Labor & Employment Committee of the Atlanta Bar Association and Vice-Chair of the Trade Secret Committee of the State Bar of Georgia's Intellectual Property Section. Neal previously served as an observer on the Drafting Committee on Covenants Not to Compete for the Uniform Law Commission. Neal graduated from Emory University School of Law in 2006 and received his Bachelor of Arts from Tulane University in 2003.

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David B. Wilson is a founding partner of Hirsch Roberts Weinstein LLP, and has spent over three decades defending employers in employment, wage and hour, non-compete and general commercial disputes in the state and federal courts of Massachusetts and New Hampshire. In 2015 Dave was first recognized by his peers as *Lawyer of the Year* by Best Lawyers in America for his work in Litigation – Labor and Employment. He was again recognized by his peers as *Lawyer of the Year* by Best Lawyers in America (2018 Edition and 2020 Edition) for his work in Labor and Employment – Management.

Erik J. Winton
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Erik J. Winton is a principal in the Boston, Massachusetts, office of Jackson Lewis P.C. He is the co-leader of the firm's Restrictive Covenants, Trade Secrets and Unfair Competition practice group. His practice focuses on restrictive covenant drafting, counseling, litigation avoidance and litigation. He regularly provides valuable counsel to clients in New England and across the country regarding these issues. Erik has extensive experience as a litigator, including successful first chair jury trial experience. He represents employers in federal and state courts and administrative agencies in matters involving discrimination claims based on race, sex, sexual preference, national origin, and disability; retaliation, whistle blowing, wage/hour claims and Department of Labor complaints; allegations of wrongful discharge and breach of contract under the common law; and claims for tortuous injury, such as defamation, infliction of emotional distress and interference with advantageous relations. Erik has prevailed on the vast majority of dispositive motions filed on his clients' behalf, including several reported cases. Erik's practice emphasizes advising employers regarding how to comply with the full range of federal and state labor and employment laws. This includes advising clients on issues relating to disability and leave management, reductions in force, wage and hour laws and workplace safety. Erik also drafts and negotiates executive employment and severance agreements on behalf of both employers and executives. Erik speaks frequently regarding employment law issues. He joined the firm in 2000 after five years as a litigator at Fitzhugh & Associates (now Fitzhugh & Mariani, LLP), a litigation boutique with offices in Boston and Hartford, Connecticut. While attending law school, he was on the staff of the Cardozo Arts & Entertainment Law Journal.

James M. Witz
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James M. Witz is a litigator specializing in noncompetition and trade secret disputes, and cases involving emergency and injunctive relief. He is the co-chair of Littler Mendelson's national Unfair Competition and Trade Secret Practice Group. Mr. Witz represents both plaintiffs and defendants in restrictive covenant matters, and has obtained multiple seven figure trial verdicts in high-profile trade secret and restrictive covenant cases in courts around the United States and has successfully argued such matters in the higher courts as well. Mr. Witz counsels clients throughout the country regarding employee hiring, termination and related matters, including the drafting and implementation of effective employment agreements, confidentiality policies and restrictive covenants. Mr. Witz is a frequent speaker on restrictive covenant and trade secret matters, and has authored or contributed commentary on such matters for leading legal publications.

Russell M. Yankwitt
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Russell Yankwitt founded Yankwitt LLP in 2009, after honing his litigation skills at the premier New York City law firm of Skadden, Arps, Slate, Meagher and Flom LLP, serving as Assistant United States Attorney in the Southern District of New York, and serving as a federal law clerk to Thomas C. Platt of the United States District Court for the Eastern District of New York. Russell litigates commercial matters of all kinds, including contract and partnership disputes, employment and shareholder lawsuits, insurance coverage disputes, ADA litigations, and premises liability cases. He is recognized as Westchester's go-to litigator and trial attorney, having accrued an enviable track record of trial victories over the past two decades. As a result, Russell is regularly retained by Westchester and New York City law firms to collaborate on their high-stakes trials throughout the state of New York.

Appendix B

State	If Permitted and Statute	Protectable / Legitimate Interests	Standards	Exemptions	Continued Employment is Sufficient Consideration	Reformation Blue Pencil Red Pencil Purple Pencil	Enforceable Against Employees Terminated w/o Cause
Alabama	Yes. Ala. Code § 8-1-190-197 (*§ 8-1-1 repealed effective 1/1/2016*)	Trade secrets; confidential information; commercial relationships or contacts with specific prospective or existing customers, patients, vendors, or clients; customer, patient, vendor, or client goodwill; specialized and unique training involving substantial business expenditure specifically directed to a particular agent, servant, or employee (if identified in writing as consideration for the restriction).	Must be in writing, signed by all parties, and be supported by adequate consideration. Must preserve a protectable interest. Employee-employer relationship must exist at the time the agreement is executed. A two-year restriction is presumptively reasonable. Employee has burden of proving undue hardship, if raised as a defense.	Professionals (includes physicians, physical therapists, veterinarians, public accountants, certified public accountants, and maybe securities brokers, all based on pre-2016 cases)	Yes (pre-amendment)	Reformation	Yes, likely (pre-amendment)
Alaska	Yes	Trade secrets; intellectual property; customer lists; goodwill with customers; knowledge of his or her business practices; methods; profit margins; costs; other confidential information (that is confidential, proprietary, and increases in value from not being known by a competitor; other valuable employer data that the empoyer has provided to an employee that an employer would reasonably seek to protect or safeguard from a competitor in the interest of fairness.	Factors: limitations in time and space; whether employee was sole contact with customer; employee's possession of trade secrets or confidential information; whether restriction eliminates unfair or ordinary competition; whether the covenant stifles employee's inherent skill and experience; proportionality of benefit to employer and detriment to employee; whether employee's sole means of support is barred; whether employee's talent was developed during employment; whether forbidden employment is incidental to the main employment.	-	Undecided	Reformation	Undecided

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Arizona	Yes	Trade Secrets; confidential information; customer relationships.	No broader than necessary to protect the employer's legitimate business interest; not unreasonably restrictive; not contrary to public policy; ancillary to another contract.	Broadcasters; maybe physicians	Yes	Blue Pencil	Undecided
Arkansas	Yes. AR Code 4-75-101	Trade secrets; intellectual property; customer lists; goodwill with customers; knowledge of business practices; methods; profit margins; costs; other confidential information (that is confidential, proprietary, and increases in value from not being known by a competitor); training and education; other valuable employer data (if provided to employee and an employer would reasonably seek to protect or safeguard from a competitor in the interest of fairness).	Limited with respect to time and scope in a manner that is not greater than necessary to defend the protectable business interest of the employer. The lack of a geographic limit does not render the agreement unenforceable, provided that the time and scope limits appropriately limit the restriction. Factors to consider include the nature of the employer's business interest; the geographic scope, including whether a geographic limit is feasible; whether the restriction is limited to specific group of customers or others; and the nature of the employer's business. A two-year restriction is presumptively reasonable unless clearly demonstrated otherwise.	Various professionals (medical, veterinary, social workers, others)	Yes	Reformation (mandatory)	Undecided, but it can be a factor.
California	No, except maybe as to trade secrets. Cal. Business & Professions Code §§ 16600-16602.5	Trade secrets.	Uncertain status as to trade secrets. Ban may be waivable through compliance with Cal. Labor Code § 925.	-	-	-	-

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Colorado	Yes. Colo. Rev. Stat. § 8-2-113	Trade secrets; recovery of training expenses for short-term employees.	Prior to August 10, 2022, must fall within statutory exception (executive or management employees and professional staff or to protect trade secrets or recover cost of training); be reasonable; and be narrowly-tailored. Agreements on or after *August 10, 2022:* only if no broader than reasonably necessary to protect the employer's trade secrets. Prospective employees must receive notice of the noncompete and its terms before they accept the offer of employment; existing employees must receive notice of the noncompete and its terms at least fourteen days before the earlier of the effective date of the noncompete or "the effective date of any additional compensation or change in the terms or conditions of employment that provides consideration for the covenant." Notice must be in a separate document (accompanied by the noncompete) and must "in clear and conspicuous terms" identify the noncompete by name, "[d]irect[] the worker to the specific sections or paragraphs of the agreement that contain the covenant not to compete," and "state that the agreement contains a covenant not to compete that could restrict the workers' options for subsequent employment following their separation from the employer." The notice must also be "in the language in which the worker and employer communicate about the worker's performance" and be "signed by the worker." Venue and choice of law are limited. (Note: The new law clarifies the limited application of Colorado's criminal law.)	Physicians (damages not barred). For agreements entered on or after August 10, 2022, noncompetes cannot be used for anyone who is not a "highly compensated employee," *i.e.*, an employee earning (both at the time of execution and enforcment) at least $112,500 (as of 2023). (This amount will increase).	Yes (pre-amendment; no indication of a change post-amendment)	Reformation	Undecided

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Connecticut	Yes	Trade secrets; confidential information; customer relationships.	Factors: time; geographic reach; fairness of protection afforded to employer; extent of restraint on employee; extent of interference with public interest.	Broadcasters; security guards; limited as to physicians; individuals providing homemaker, companion, or home health services.	Yes, likely	Blue Pencil	Yes
Delaware	Yes	Trade secrets; confidential information; customer relationships.	Reasonable in time and geographic reach; protects legitimate economic interests; survives balance of equities.	Physicians	Yes	Reformation	Yes
D.C.	Yes D.C. Code §§ 32-581.01 - 32-581.05	Trade secrets; confidential knowledge; fruits of employment.	Follows Restatement (Second) of Contracts, §§ 186-88: Reasonable in time and geographic area; necessary to protect legitimate business interests; promisee's need outweighs promisor's hardship. Effective October 1, 2022 (not retroactive): If employee is based in D.C. and spends no more than 1/2 time in any other state or not based in D.C. but spends more than 1/2 of their time in D.C., they must earn at least $150,000 ($250,000 for physicians), unless they are casual babysitters and government workers. Duration be no longer than 365 days. Effective October 1, 2022: Specific notices must be provided at certain times.	Broadcasters; anyone earning less than $150,000 (except for casual babysitters and government workers); physicians earning less than $250,000	Yes (if employment continued for sufficient duration)	Reformation	Undecided
Florida	Yes. Fla. Stat. Ann. §§ 542.335	Trade secrets; confidential business information; substantial customer relationships and goodwill; extraordinary or specialized training.	Legitimate business interest; reasonably necessary to protect legitimate business interest. [Rebuttal presumptions exist.]	Mediators; physician specialists (where they are exclusive in a county)	Yes	Reformation (mandatory)	Likely.

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Georgia	Yes. Ga. Const., Art. III, Sec. VI, Par. V(c), as amended; OCGA §§ 13-8-50-59. [*NOTE*: Pre-amendment law was more restrictive and applies to pre-amendment agreements]	Trade secrets (per OCGA § 10-1-761); valuable confidential information that does not otherwise qualify as a trade secret; substantial relationships with specific prospective or existing customers, patients, vendors, or clients; customer, patient, or client goodwill associated with: an ongoing business, commercial, or professional practice, a specific geographic location; or a specific marketing or trade area; and extraordinary or specialized training. [Statute anticipates additional legitimate business interests.]	Reasonable in time, space, and scope; justified by a legitimate business interest; applied to employees who regularly solicit customers, engage in sales, perform the duties of a key employee, or have the duty of managing a department and regularly direct the work of employees and have the authority to hire or fire them. [Statute provides presumptions for reasonableness of time and geography.]	-	Yes	Blue Pencil (according to the Northern District).	Yes, but it's a factor to consider.
Hawai'i	Yes. Haw. Rev. Stat. § 480-4	Trade secrets; confidential information (though somewhat in doubt); special training that provides skills beyond those of a general nature (at least when combined with other factors such as protecting trade secrets, confidential information, or special customer relationships).	Must protect a legitimate business interest and be reasonable," *i.e.*, not "greater than required for the protection of the person for whose benefit it is imposed"; does not "impose undue hardship on the person restricted"; and the "benefit to the covenantee [cannot be] outweighed by injury to the public . . . ."	Employees in a technology business [effective as of 1/1/2015]	Yes, likely	Reformation	Undecided

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Idaho	Yes. Idaho Code §§ 44-2701-2704	Trade secrets; technologies; intellectual property; business plans; business processes and methods of operation; goodwill; customers; customer lists; customer contacts and referral sources; vendors and vendor contacts; financial and marketing information; potentially others.	Applicable to "key employee"; reasonable as to duration, geographical area, type of employment or line of business, and does not impose a greater restraint than is reasonably necessary to protect the employer's legitimate business interests; reasonable as to covenantor, covenantee, and public. Rebuttable presumptions of reasonableness: 18 months; geographic area restricted to areas employee provided services or had significant presence or influence; limited to line of business in which employee worked. Presumption that employee is "key employee" if in highest paid 5% employees in company.	Non-"key employees." ("Key employees" are those who have gained a high level of inside knowledge, influence, credibility, notoriety, fame, reputation or public persona as a representative or spokesperson of the employer, and as a result, have the ability to harm or threaten an employer's legitimate business interests.)	Yes (but if no additional consideration, noncompete is limited to 18 months)	Reformation	Yes

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Illinois	Yes 820 I.L.C.S. §§ 90/1 et seq.	For agreements pre-January 1, 2022: Legitimate business interests are based on the totality of the facts and circumstances of the case. Trade secrets, confidential information, and near permanent business relationships are factors. For agreements entered on or after January 1, 2022: "the employee's exposure to the employer's customer relationships or other employees, the near-permanence of customer relationships, the employee's acquisition, use, or knowledge of confidential information through the employee's employment, the time restrictions, the place restrictions, and the scope of the activity restrictions." The bill is also express that "[n]o factor caries any more weight than any other" and that the "factors are only non-conclusive aids in determining the employer's legitimate business interest, which in turn is but one component in the 3-prong rule of reason, grounded in the totality of the circumstances."	For agreements pre-January 1, 2022: No greater than required to protect a legitimate business interest; does not impose undue hardship on the employee; not injurious to the public; and reasonable in time, space, and scope. [May require two years of employment before any noncompete can be enforced.] For agreements entered on or after January 1, 2022: Noncompete "is illegal and void unless (1) the employee receives adequate consideration, (2) the covenant is ancillary to a valid employment relationship, (3) the covenant is no greater than is required for the protection of a legitimate business interest of the employer, (4) the covenant does not impose undue hardship on the employee, and (5) the covenant is not injurious to the public," and the employee (a) is advised "in writing to consult with an attorney" and (b) provided with the covenant at least 14 calendar days' notice (though the notice is waivable). Adequate consideration is defined as: "(1) the employee worked for the employer for at least 2 years after the employee signed an agreement containing a covenant not to compete . . . or (2) the employer otherwise provided consideration adequate to support an agreement to not compete . . . , which consideration can consist of the period of employment plus additional professional or financial benefits or merely professional or financial benefits adequate by themselves." [*Illinois venue and choice of law. Attorney's fees to prevailing employee*.]	Broadcasters; government contractors; physicians; low-wage workers; certain nurses and certified nurse aides. For agreements entered on or after January 1, 2022: The "low-wage" exemption changes to a wage threshold (all earnings from the employer) of $75,000 (increasing to $80,000 by 2027, $85,000 by 2032, and $90,000 by 2037); individuals covered by collective bargaining agreements under the Illinois Public Labor Relations Act or the Illinois Educational Labor Relations Act or employed in construction (unless they "primarily perform management, engineering or architectural, design, or sales functions for the employer or . . . are shareholders, partners, or owners in any capacity of the employer").	For agreements pre-January 1, 2022: Yes (if employment continued for sufficient duration) For agreements entered on or after January 1, 2022: No.	For agreements pre-January 1, 2022: Reformation For agreements entered on or after January 1, 2022: Reformation (purple pencil)	For agreements pre-January 1, 2022: Yes For agreements entered on or after January 1, 2022: No, if the employer enters a noncompete with an employee who is terminated, furloughed or laid off "as the result of business circumstances or govermental orders related to the COVID-19 pandemic," unless the employee is paid the equivalent of their base salary (less earnings from new employment).

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Indiana	Yes	Trade secrets; confidential information; goodwill.	Reasonably necessary to protect the employer, not unreasonably restrictive of the employee and not against public policy. Clear and specific (not general) restraint must be reasonable in light of the legitimate interests to be protected; reasonableness is measured by totality of interrelationship of the interest, and the time, space, and scope of the restriction, judged by the needs for the restriction, the effect on the employee, and the public interest. Physician noncompetes entered into on or after July 1, 2020, must contain specific provisions concerning communications with patients, access to patient information, and a "buy-out" option. *See* Ind. Code § 25-22.5-5.5.	-	Yes	Blue Pencil	Yes
Iowa	Yes Iowa Code § 135Q.1-2 (concerns healthcare employment agency workers only, eff. 7/1/2022)	Trade secrets; goodwill; special training or peculiar knowledge that would unjustly enrich an employee at the expense of the former employer.	Whether the restriction is reasonably necessary to protect the employer's business, unreasonably restrictive (time and space), and prejudicial to the public interest.	Franchisees (where franchisor does not renew); healthcare employment agency workers (effective July 1, 2022)	Yes	Reformation	Yes, but it's a factor to consider.
Kansas	Yes	Trade secrets; confidential business information; loss of clients; goodwill; customer contacts; referral sources; reputation; special training.	Reasonable under the circumstances: protects a legitimate business interest; no undue burden on the employee; not injurious to public interest or welfare; reasonable in time and space.	Accountants (limited)	Yes	Reformation	Yes

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Kentucky	Yes KRS § 216.724 (concerns healthcare services agency direct staff only, eff. 7/1/2022)	Confidential business information; customer lists; competition; investment in training.	Reasonable in scope and purpose; reasonableness determined by the time, space, and "charter" of the restriction; no undue hardship; does not interfere with public interest.	Direct care staff of a healthcare services agency (effective July 14, 2022; a violation is an unfair trade practice)	Yes, if employment is continued for "an appreciable length of time."	Reformation	Yes, but it can be a factor.
Louisiana	Yes. La. Rev. Stat. Ann. § 23:921	Trade secrets; financial information; management techniques; extensive training (if such training is unrecouped through employee's work).	No more than two years; specifies the specific geographic reach (by parishes, municipalities, or their respective parts); defines employer's business; strict compliance with statute, including that employee-employer relationship must exist at the time the agreement is executed.	Automobile salesmen; real estate broker's licensees (procedural requirements)	Yes	Blue Pencil, if allowed by the noncompete	Yes, likely
Maine	Yes Me. Rev. Stat. Ti. 26, c. 7, § 599-A	Trade secrets; confidential information; goodwill.	No broader than necessary to protect the employer's legitimate business interest; reasonable as to time, space, and interests to be protected; no undue hardship to employee. In addition, *for agreements signed on or after September 18, 2019*: employee must receive notice of noncompete prior to an offer of employment and a copy of the agreement 3 business days in advance of the deadline to sign; and the employee (except certain physicians) must be employed at least a year or remain employed for at least six months after signed, whichever is longer.	Broadcast industry (presumption); low-wage workers (earning less than or equal to 400% of the federal individual poverty level - $58,320 (est.) as of 2023)	Yes	Reformation	Yes, likely

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Maryland	Yes Md. Code, Lab. & Empl. § 3-716	Trade secrets; routes; client lists; established customer relationships; goodwill; unique services.	Duration and space no wider than reasonably necessary to protect legitimate interests; no undue hardship to employee; not contrary to public policy; ancillary to the employment.	*Effective 10/1/2020:* Low-wage employees, *i.e.* , employees earning less than $15 per hour or $31,200 annually	Yes	Blue Pencil	No, likely
Massachusetts	Yes. Mass. Gen. Laws c. 149, § 24L (applies only to agreements signed on or after October 1, 2018)	Trade secrets; confidential information; goodwill.	Narrowly tailored to protect legitimate business interest; limited in time, space, and scope; consonant with public policy. Additional requirements added by 2018 statute: must be signed by both parties; provided to employee 10 business days in advance (or prior to a formal offer, if earlier); state that the employee has the right to consult counsel; and satisfy consideration requirements. Presumptions of necessity of the agreement and reasonableness as to place and scope apply. Venue and choice of law are limited.	Broadcasters; physicians; nurses; social workers; psychologists. Additional exemptions added by 2018 statute: FLSA nonexempt employees; student interns/short-term student employees; employees who have been terminated without cause or laid off; and employees that re 18 years old or younger	No (per new statute; yes before)	Reformation	No (per new statute; yes before)
Michigan	Yes. Mich. Comp. Laws § 445.774a	Trade secrets; confidential business information; goodwill.	Must have an honest and just purpose and to protect legitimate business interests; reasonable in time (no more than one year), space, and scope or line of business; not injurious to the public.	-	Yes	Reformation	Yes
Minnesota	Yes	Trade secrets; confidential business information; goodwill; prevention of unfair competition.	No broader than necessary to protect the employer's legitimate business interest; does not impose unnecessary hardship on employee.	Employees of supplemental nursing services agencies.	No	Reformation (though called "blue pencil")	Yes

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Mississippi	Yes	Trade secrets; confidential business information; goodwill; ability to succeed in a competitive market.	Reasonableness and specificity of restriction, primarily, in time and space; hardship to employer and employee; public interest.	-	Yes (though questioned if employee terminated shortly after)	Reformation	Yes, absent bad faith or arbitrary basis for termination
Missouri	Yes. 28 Mo. Stat. Ann. § 431.202 (related)	Trade secrets; confidential business information; customer or supplier relationships, goodwill, or loyalty; customer lists; protection from unfair competition; stability in the workforce.	Reasonably necessary to protect legitimate interests; reasonable in time and space; not an unreasonable restraint on employee; purpose served; situation of the parties; limits of the restraint; specialization of the business. [Absence of legitimate business interest impacts duration, which can be no more than one year.]	Secretaries (limited); clerks (limited)	No	Reformation	Yes, but it can be a factor.
Montana	Yes. Mont. Code Ann. §§ 28-2-703-05	Trade secrets; proprietary information that would provide an employee with an unfair advantage; goodwill; customer relationships.	Partial or restricted in its operation by being limited in operation either as to time or place; supported by "some good consideration"; protects a legitimate business interest; reasonable, affording only a fair protection to the interests of the party in whose favor it is made, and not so large in its operation as to interfere with (or impose an unreasonable burden upon) the employer, the employee, or the interests of the public.	-	No	Blue Pencil, likely	No

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Nebraska	Yes	Trade secrets; confidential information; goodwill.	Reasonably necessary to protect legitimate interests; not unduly harsh or oppressive to employee; not injurious to the public. Considerations include: inequality in bargaining power; risk of loss of customers; extent of participation in securing and retaining customers; good faith of employer; employee's job, training, health, education, and family needs; current employment conditions; need for employee to change his calling or residence; relation of restriction to legitimate interest being protected. True noncompetes are rarely, if ever, permitted.	-	Yes, likely	Red Pencil	Undecided
Nevada	Yes. Nev. Rev. Stat. § 613.195-200 [*effective June 3, 2017*]	Trade secrets; goodwill.	Void unless: (a) supported by valuable consideration; (b) not greater than required to protect employer; (c) no undue hardship on employee; and (d) appropriate in relation to the consideration. Cannot restrict employee from providing service to customer/client if (a) customer/client was not solicited; (b) customer/client voluntarily chose to leave or seek services from employee; and (c) employee otherwise complies with time, geographical area, and scope of noncompete. [*Effective 10/1/2021: Attorney's fees for the employee if the employer ignored the exemption or used the noncompete to prevent solicitation of customers in violation of the statute.*]	Pre-10/1/2021: none *Effective 10/1/2021*: employees "paid solely on an hourly wage basis, exclusive of any tips or gratuities"	Yes (pre-amendment)	Pre-10/1/2021: Reformation (mandatory) Effective 10/1/2021: Reformation (mandatory), and revised noncompete must "not impose undue hardship on the employee"	Undecided, except with reduction in force, "reorganization or similar restructuring of the employer," in which case employee must be paid "salary, benefits or equivalent compensation," including severance.

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New Hampshire	Yes. RSA 275:70, 275:70-a	Trade secrets; confidential business information; goodwill; employee's special influence over the employer's customers; contacts developed during employment.	Not greater than necessary to protect the employer's legitimate business interests; no undue or disproportionate hardship to employee; not injurious to public interest; new employees must be given a copy of the noncompete prior to acceptance of offer for employment.	Physicians (*effective 8/5/2016*); nurses and podiatrists (effective 6/25/2018); low-wage employees, *i.e.*, those earning less than or equal to 2x federal minimum wage (*i.e.*, $14.50/hour) or tipped minimum wage, whichever applies (*effective 9/8/2019*).	Yes	Reformation	Undecided
New Jersey	Yes	Trade secrets; confidential business information; goodwill in existing customers; preventing employee from working with customer at lower cost than working through employer.	Protects a legitimate business interest; not undue burden on employee; not injurious to the public; not overbroad in time, space, and scope.	In-house counsel; psychologists	Yes	Reformation	Yes, but it's a factor to consider.

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New Mexico	Yes. N.M.S.A. 1978, §§ 24-1I-1-5 (creates healthcare practitioner exemption only)	Maintaining workforce; limitation of competition (but not to stifle competition); customer relationships.	Reasonable as applied to the employer, employee, and public; not great hardship to employee in exchange for small benefits to employer.	Healthcare practitioners (dentists, osteopathic physicians, physicians, podiatrists, certified registered nurse anethetists) to the extent they are providing clinical health care services. [Exemption has limits (including that it does not apply to a covered medical professional if they are a shareholder, owner, partner, or director of a healthcare practice) and is effective only to agreements from 7/1/2015 and after.]	Yes, likely	Undecided	Undecided
New York	Yes	Trade secrets; confidential information; goodwill; on-air persona of broadcasters; employee's unique or extraordinary services.	Reasonable in time and space, and no greater than is required for the protection of the legitimate interest of the employer; does not impose undue hardship on the employee; not injurious to the public.	Broadcast industry employees (except "management employees")	Yes	Reformation	Cases are split
North Carolina	Yes. N.C. Gen. Stat. § 75-4	Trade secrets; confidential business information; goodwill.	In writing; part of an employment contract; reasonably necessary to protect legitimate business interest; reasonable in time and space; not against public policy.	Physicians, possibly (in underserved areas)	No	Blue Pencil	Yes, likely
North Dakota	No. N.D. Cent. Code § 9-08-06	-	-	-	-	-	-

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Ohio	Yes	Trade secrets; confidential information; customer relationships; prevention of the use of proprietary customer information to solicit customers.	Not greater than necessary to protect the employer's legitimate business interests; no undue hardship to employee; not injurious to public interest. Considerations: absence or presence of limitations as to time and space; whether employee is sole contact with customer; employee's possession of trade secrets or confidential information; purpose of restriction (elimination of unfair competition vs. ordinary competition and whether seeks to stifle employee's inherent skill and experience); proportionality of benefit to employer as compared to the detriment to the employee; other means of support for employee; when employee's talent was developed; whether forbidden employment is merely incidental to the main employment.	-	Yes	Reformation	Yes
Oklahoma	No. OK Stat. § 15-219A	-	-	-	-	-	-

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Oregon	Yes. Or. Rev. Stat. § 653.295	Trade secrets; confidential business or professional information; investment in certain on-air broadcasters; customer contacts and goodwill.	Noncompete must be provided at least two weeks before employment or with a bona fide advancement; employee is in an executive, administrative, or professional role and meets minimum compensation threshold; restricted in time or space; application of restriction should afford only a fair protection of the employer's interests; must not interfere with public interest. *As of January 1, 2016*, noncompetes are limited to 18 months. [Qualifying garden leave clauses are enforceable.] *Effective January 1, 2020*, a signed, written copy of the employee's noncompete must be sent within 30 days following termination of employment. *Noncompetes entered on or after January 1, 2022, cannot be longer than 12 months, and employees subject to them must have "annual gross salary and commissions" exceeding $100,533 (adjusted annually for inflation ($108,575.64 as of January 1, 2023)); failure to satisfy the statutory requirements renders the nonocmpete void.*	Home healthcare workers. *Though not listed as exemptions, a salary threshold applies. For agreements entered into before January 1, 2022: an "employee's annual gross salary and commissions" must "exceed[] the median family income for a four-person family" applies; for agreements entered on or after January 1, 2022, the "employee's annual gross salary and commissions" must "exceed[] $100,533, adjusted annual for inflation" ($108,575.64 as of January 1, 2023).*	No	Reformation	Undecided
Pennsylvania	Yes	Trade secrets; confidential information; goodwill; investment in specialized training; unique or extraordinary skills; patient referral base.	Reasonably necessary to protect the employer's legitimate interests; reasonable in time and space.	-	No	Reformation	Yes, but it's a factor to consider.

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Rhode Island	Yes R.I. Gen. Laws §§ 28-59-1–3	Trade secrets; confidential information; customer lists; goodwill; training in unique or special services.	Narrowly tailored to protect a legitimate business interest; reasonably limited in activity, geography, and time; does not impose undue burden on employee in light of the need to protect the employer's legitimate business interests; not likely to harm the public interest.	Physicians. *Effective 1/15/2020* (*with retroactive effect*): employees who are 18 years old or younger; student interns/short-term student employees; FLSA nonexempt employees and other low-wage employees, *i.e.*, employees earning no more than 2.5x the federal poverty level ($36,450 (est.) as of 2023 – based on the employee's "regular" hours, *i.e.*, non-overtime, non-weekend, non-holiday hours).	Undecided, but likely	Reformation	Undecided
South Carolina	Yes	Business and customer contacts; existing employees; existing payroll deduction accounts.	Necessary to protect legitimate business interest; reasonably limited in time and space; not unduly harsh and oppressive to employee's efforts to earn a living; reasonable from standpoint of public policy.	-	No	Blue pencil, likely. (SC S.Ct rejected blue pencil doctrine by name, but case involved reformation; SC Ct. App. has since permitted step-down provisions.)	Undecided

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South Dakota	Yes. S.D. Codified Laws §§ 53-9-8, *et seq*.	Trade secrets; protection from unfair competition; existing customers.	Restriction in the same business or profession as that carried on by employer and does not exceed two years and in a specified geographic area; reasonableness in time, space, and scope is a factor in certain circumstances.	Physicians, physician assistants, certified nurse practitioners, certified nurse midwives, certified registered nurse anesthetists, registered nurses, licensed practical nurse (*all effective July 1, 2021*).	Yes	Reformation, likely	Yes, but it's a factor to consider.
Tennessee	Yes	Trade secrets; confidential information; retention of existing customers; specialized training.	Reasonable in time and space and necessary to protect legitimate interest; public interest not adversely affected; no undue hardship to the employee.	Physicians (excluding emergency medicine), podiatrists, chiropractors, dentists, optomitrists, osteopathic physicians, phycologists.	Yes (if employment continued for appreciably long period)	Reformation	Yes, but it's a factor to consider.
Texas	Yes. Tex. Bus. & Com. Code §§ 15.50-.52	Trade secrets; confidential or proprietary information; goodwill; specialized training.	Reasonable in time, space, and scope; does not impose a greater restraint than necessary to protect legitimate business interest. **In December 2011, the Texas Supreme Court withdrew its June 2011 landmark decision, but still eliminated the requirement that the consideration given by the employer in exchange for the noncompete must give rise to the interest protected by the noncompete, and held that the consideration for the noncompete agreement must be reasonably related to the company's interest sought to be protected.*	Physicians (in certain circumstances)	No	Reformation (mandatory)	Yes

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Utah	Yes. Utah Code Ann. §§ 34-51-101-301 [Certain changes apply to agreements starting May 10, 2016 and others May 14, 2019]	Trade secrets; goodwill; extraordinary investment in training or education.	Carefully drawn to protect only the legitimate interests of the employer, reasonable based on geography, duration, and nature of the employee's duties in light of the legitimate business interests to be protected. One year limit for agreements entered on or after May 10, 2016.	Broadcasters (under certain circumstances)	Yes	Undecided	Yes
Vermont	Yes	Trade secrets; confidential information; goodwill; relationships with customers.	Necessary to protect legitimate business interest; not unnecessarily restrictive to employee; limited in time, space, and/or industry; not contrary to public policy.	Beauticians and cosmetologists (by their school)	Yes	No, but possibly if contract provides.	Undecided
Virginia	Yes Virginia code § 40.1-28.7:8	Trade secrets; confidential information; knowledge of methods of operation; protection from detrimentala competition; customer contacts.	Narrowly drawn (no greater than necessary) to protect the employer's legitimate business interest; reasonable in time, space, and scope; not unduly harsh or oppressive (or burdensome on the employee) in curtailing the employee's ability to earn a livelihood; not against, and reasonable in light of, sound public policy. *Effective 7/1/2020: a notice must be posted.*	*Effective 7/1/2020*: "Low-wage" employees, *i.e.*, employees earning less than approximately $52,000 annually; likely not applicable to salespersons. (As for 2022, the amount is approximately $69,836 annually.)	Yes	Red Pencil, but severable portions can be enforced if remaining restrictions are otherwise enforceable.	Yes

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Washington	Yes RCW §§ 49.62.005–900	Customer information and contacts; goodwill.	Restriction is necessary to protect employer's business or goodwill; restriction is no greater than reasonably necessary to secure employer's business or goodwill; reasonable in time and space; injury to public does not outweigh benefit to employer. *Effective* 1/1/2020: notice must be provided before acceptance of offer or before agreement becomes effective (whichever applies); independent consideration for mid-employment agreements; and presumption (rebuttable by clear and convincing evidence to the contrary) that noncompetes with a duration longer than 18 months are unreasonable and unenforceable; must not avoid Washington law; must not require adjudication outside of Washington; attorney's fees to employee if noncompete violates the statute.	Broadcasters (under certain circumstances). *Effective 1/1/2020*: Employees earning less than or equal to $100,000 and independent contractors earning less than or equal to $250,000 (both adjust for inflation; as of 2023, the amounts are$116,593.18 and $291,482.95, respectively); employees who are laid off (unless paid base salary, less new earnings). *Also effective 1/1/2020*: cannot prohibit moonlighting for low-wage workers, *i.e.*, those earning less than 2x minimum hourly rate.	No	Reformation (but employee will be entitled to "actual damages" or a $5,000 statutory penalty, "plus reasonable attorneys' fees, expenses, and costs")	No, unless, during the restriction, the employee is paid "compensation equivalent to the employee's base salary . . . minus compensation earned" at another job.
West Virginia	Yes	Trade secrets; confidential or unique information; customer lists; direct investment in employee's skills; goodwill.	Ancillary to a lawful contract; not greater than reasonably necessary to protect legitimate business interest; reasonable in time and space; no undue hardship on employee; not injurious to public.	-	No	Reformation	Undecided generally, but no against physicians

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Wisconsin	Yes. Wis. Stat. Ann. § 103.465	Trade secrets; confidential business information; customer relationships.	Necessary to protect legitimate business interest; reasonable in time and space; not harsh or oppressive to the employee; not contrary to public policy.	-	Yes, if continued employment is conditioned on signing the agreement.	Red pencil, but, courts (and legislature) may be moving toward a more tolerant approach.	Undecided
Wyoming	Yes	Trade secrets; confidential information; special influence of employee over customers to the extent gained during employment.	Restraint must be "(1) in writing; (2) part of a contract of employment; (3) based on reasonable consideration; (4) reasonable in duration and geographical limitations; . . . (5) not against public policy" and no greater than "necessary to protect the employer's legitimate business interests."	-	No	Red Pencil (reflecting a change by the Supreme Court of Wyoming on February 25, 2022)	Yes, likely.
	Chart covers employee noncompetes only. It does not cover noncompetes arising from the sale of a business or in other contexts.	*The interests identified above are those expressly identified by statute or case law. Other protectable interests may exist.* *Trade secrets are subsumed within confidential information if not specified.* *Customer lists are frequently included within the category of trade secrets or confidential information, assuming the particular customer list satisfies the requirements to be protectable as such. Some states, however, separately identify them as protectable interests.*	*Consideration for a noncompete is always required, as is the requirement that a noncompete be ancillary to an otherwise lawful agreement. These requirements are typically satisfied when the agreement is entered into at the inception of an employment relationship.*	*Attorneys (outside counsel and in-hiouse counsel) and certain persons in the financial services industry are subject to industry regulations not addressed in this chart. However, while outside counsel are exempt in all states; in-house counsel rules vary by state.*	*The continued employment issue addresses only at-will employment relationships.*	*Reformation is sometimes called "Judicial Modification," the "Rule of Reasonableness," the "Reasonable Alteration Approach," or the "Partial-Enforcement" rule. Red Pencil is sometimes called the "All or Nothing" rule. "Purple pencil" is a made-up term for the reformation approach with an express good faith (of the drafter) requirment grafted on.*	*Addresses only not-for-cause terminations and assumes no breach or bad faith by the employer.*

Originally drafted in 2010, this chart is updated periodically and is current as of the date indicated.
Please contact Russell Beck (*rbeck@beckreed.com*) if you would like to receive updates.

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December 20, 2021

Federal Trade Commission
600 Pennsylvania Avenue, N.W.
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Honorable Jonathan Kanter
Assistant Attorney General, Antitrust Division
950 Pennsylvania Avenue, N.W.
Washington, D.C. 20530

Re: Written Submission of Practicing Attorneys and Paralegals Concerning Potential Federal Regulation of Noncompetition Agreements and Other Restrictive Covenants

Dear Commissioners and Mr. Kanter:

Thank you for the opportunity to submit written comments for consideration in connection with the FTC's and DOJ's workshop on "Making Competition Work: Promoting Competition in Labor Markets" (the "Workshop"). Thank you also for all of the hard work that the Commission and Department of Justice have already done and continue to do toward investigating the current use and impacts (both pro and con) of noncompetition agreements and other restrictive covenants between employers and employees, as well as the need for, and appropriate scope of, any potential restrictions beyond those already addressed by the states.

This submission incorporates, resubmits, and supplements the attached July 14, 2021 letter (the "July Submission"[1]), originally submitted in response to President Biden's July 9, 2021, Executive Order on Promoting Competition in the American Economy. Accordingly, as set forth below, in this supplemental submission, we provide only additional information, address several issues raised during the Workshop, and add additional signatories to the combined submission.

We thank you for your consideration of the matters addressed in this letter.

[1] The July Submission is attached as *Appendix 1*.

SUMMARY OF THIS SUPPLEMENTAL SUBMISSION

This supplemental submission covers three topics:

1. A brief background of the additional signatories.[2]

2. New research and analysis that highlights gaps in prior research.

3. Issues raised during the Workshop.

DISCUSSION

1. OUR BACKGROUND

In all, we have 73 signatories between the two submissions. The signatories are lawyers and paralegals from around the country with extensive experience representing clients (from Fortune 50 companies to "mom and pop" shops to individual employees) in countless trade secret and noncompete matters on all sides of these disputes. A brief biography of each of the 14 new signatories (with a link to the individual's full on-line biography) and updates to certain prior signatories' information are provided as *Attachment A*.

2. NEW RESEARCH AND ANALYSIS HIGHLIGHTS GAPS IN PRIOR RESEARCH

In our July Submission, we observed that "[w]hile a number of helpful studies have been conducted, this area of research is still in many respects nascent."[3] Further, we identified that "the existing research suffers from certain inherent difficulties (including that it can be hard to

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2 Information concerning the original signatories' background is not reproduced except to the extent that it has changed since the July Submission.

Please note that many of the signatories were also signatories to a letter dated March 20, 2020, submitted in connection with the Federal Trade Commission and Department of Justice's January 9, 2020 workshop, "Non-Competes in the Workplace: Examining Antitrust and Consumer Protection Issues" (the "2020 Workshop"). A copy of that letter is available at https://www.regulations.gov/comment/FTC-2019-0093-0319.

As noted in the July Submission (at n.21), no signatory to this letter is endorsing any statement as to any specific company or product outside the context of this letter. Accordingly, nothing in this letter is an admission by any counsel, company, or party, and nothing described herein is understood or intended by any signatory to create a positional or other conflict in any particular present, contemplated, or future matter.

3 July Submission, at 29 (footnote omitted).

isolate direct causal connections to noncompetes), reflects areas of (seeming) inconsistencies, and leaves open many areas in need of additional study."[4]

These observations were later reiterated in a short video played during the Workshop.[5]

They also now appear to be further supported by recent additional research, information, and analysis, as set forth below.

Noncompetes May Aid Startups, Not Suppress Them

First, a recently-updated study issued by the Federal Reserve Bank of Philadelphia[6] calls into question "the widely held view that enforcement of non-compete agreements negatively affects the entry rate of new firms or the rate of jobs created by new firms."[7] Like a seminal noncompete study from 2009,[8] the Federal Reserve Bank of Philadelphia study uses Michigan's 1985 elimination of a ban on noncompetes as a "natural experiment." Based on that change, the study found:

> that increased enforcement [of noncompetes] had *no effect on the entry rate* of startups, but a *positive effect on jobs* created by these startups in Michigan relative to a counterfactual of states that did not enforce such covenants pre- and post-treatment. Specifically, we find that a doubling of enforcement led to an increase of about 8 percent in the startup job creation rate in Michigan. We also find evidence that enforcing non-competes positively affected the number of high-tech establishments and the level of high-tech employment in Michigan.

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4 *Id.*

5 The video was submitted by Russell Beck, and is available at https://doj-ftc-labor-issues-workshop-2021.videoshowcase.net/making-competition-work-day-1?category=191081, at 2:37:56, Transcript of the Workshop ("2021 Workshop Tr."), Day 1, at p. 44-45.

6 Gerald A. Carlino, *Do Non-Compete Covenants Influence State Startup Activity? Evidence from the Michigan Experiment* (originally published 2017, updated July 2021) (available at https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2021/wp21-26.pdf).

7 *Id.* at 1.

8 Matt Marx, Deborah Strumsky, Lee Fleming, *Mobility, Skills, and the Michigan Non-Compete Experiment* (2009), available at https://doi.org/10.1287/mnsc.1080.0985.

Id. at 1 (emphasis added).[9]

The study thus supports the serious concern that bans on noncompetes intended to help startups will in practice do precisely the opposite.[10]

Bundling Study Reveals Limitations in Other Studies

Second, more generally, recent scholarship by Professors Natarajan Balasubramanian,[11] Evan Starr,[12] and Shotaro Yamaguchi[13] further calls into question prior research about noncompetes. Specifically, the professors observe that because companies "bundle" multiple restrictive covenants, the results of the prior studies, which focus on just

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[9] It bears noting that because noncompetes are limited in duration, the noncompete may delay the timing of the startup, but not necessarily its creation. *See*, *e.g.*, *JetBlue's Founder is Starting a New US Airline With $100 Million and 60 Planes* (Dave Neeleman, founder of JetBlue, started another U.S. airline after his noncompete expired), available at https://viewfromthewing.com/jetblues-founder-is-starting-a-new-us-airline-with-100-million-and-60-planes/). This point is implicitly noted by University of Alabama School of Law Professor Mirit Eyal-Cohen, insofar as she explains that "[a] balance can be struck by limiting the ability of . . . employees to work on projects (not firms) with similar technology for a reasonable period of time." *Innovation Agents*, 76 Wash. & Lee L. Rev. 163 (2019), available at https://scholarlycommons.law.wlu.edu/wlulr/vol76/iss1/6/. This is what most noncompetes are designed to do. Further, even if the noncompete were not available, owners of trade secrets could seek to prevent the startup through trade secret law, at least to the extent that the startup relies on their trade secrets. As noted previously, trade secret lawsuits "are far more involved, more costly, longer lived, and less predictable than noncompete litigation." July Submission, at 18 n.50.

[10] In contrast, a recent paper by Michael Lipsitz (Federal Trade Commission) and Mark Tremblay (Miami University) suggests that noncompetes prevent startups, ultimately harming consumers. *See Noncompete Agreements and the Welfare of Consumers* (Dec. 1, 2021), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3975864. This paper is consistent with various comments made during the Workshop that depend on a string of assumptions. Under this view, noncompetes prevent startups, which in turn prevents the creation of improved products that the startup would have (presumably) developed, made, and sold, which would have (presumably) in turn led to more competition, which would have (presumably) led to lower prices, and thus would result in harm to consumers. It is unclear how the analysis in the Federal Reserve Bank of Philadelphia's study applies to this new paper.

[11] https://whitman.syr.edu/directory/showInfo.aspx?nid=nabalasu.

[12] https://www.rhsmith.umd.edu/directory/evan-starr.

[13] https://www.rhsmith.umd.edu/directory/shotaro-yamaguchi.

noncompetes, turn out to be potentially "misleading" and "need to [be] carefully reconsider[ed]."[14]

Research is Not Sufficiently Granular

Third, a 2019 paper, *Innovation Agents*,[15] reinforces the notion that existing research suffers from a lack of granularity, as innovation in different industries responds differently to varying restrictions.[16] This paper is consistent with the views expressed by Professor Kurt Lavetti[17] (among others) during the 2020 Workshop about the "oversimplification" of certain conclusions in existing research concerning the wage effects of noncompetes.[18]

Correlation Does Not Necessarily Imply Causation

Fourth, one of the most fraught aspects of the noncompete debate remains that much of the analysis supporting potential regulation mistakes correlation for causation.[19] This

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[14] *Bundling Postemployment Restrictive Covenants: When, Why, and How It Matters* (2021) ("*Bundling Postemployment Restrictive Covenants*"), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3814403.

[15] Mirit Eyal-Cohen, *Innovation Agents*, 76 Wash. & Lee L. Rev. 163 (2019), available at https://scholarlycommons.law.wlu.edu/wlulr/vol76/iss1/6/.

[16] It may therefore be worthwhile for future research to look more closely at the duration of the noncompete restrictions at issue, the industry in which they are used, the positions for which they are used, and the geography in which they are used and to which they apply. For example, a research scientist may be more likely to create a startup, as opposed to a salesperson, depending on the industry.

[17] http://kurtlavetti.com.

[18] *See* Final Transcript of the 2020 Workshop ("2020 Workshop Tr."), p. 152, available at https://www.ftc.gov/system/files/documents/public_events/1556256/non-compete-workshop-transcript-full.pdf; July Submission, at 29.

[19] This was initially discussed in our July Submission, at 31 n.88 (and cited scholarship). For additional information, *see* Beck, *Please Stop Using California as the Poster Child to Ban Noncompetes – Time for an Honest Policy Discussion* ("*Time for an Honest Discussion*") (Nov. 2, 2021) (available at https://faircompetitionlaw.com/2021/11/02/please-stop-using-california-as-the-poster-child-to-ban-noncompetes-time-for-an-honest-policy-discussion/). Further, we note that the correlation-implies-causation fallacy applies to much of the existing research, including some of the scholarship cited in this submission. We nevertheless cite to it primarily to highlight areas of conflict and gaps, and to demonstrate that if it is to be relied upon to support further regulation, it would be unprincipled to ignore conflicting scholarship that supports refraining from further regulation.

correlation-implies-causation fallacy was specifically noted by Professors Balasubramanian, Starr, and Yamaguchi in *Bundling Postemployment Restrictive Covenants*, in which they caution that researchers cannot assess all of the variables at play in the analysis of the impacts of noncompetes, and therefore they determined to "refrain from making any strong causal claims" from the existing research.[20]

Indeed, the potential for mistaking causation for correlation was again highlighted during one of the discussions of no-poach agreements at the Workshop. Specifically, DOJ Assistant Chief & Special Counsel for Labor Doha Mekki identified an article[21] suggesting that no-poach agreements have anticompetitive effects that harm employees, in part by suppressing worker wages.[22] In the discussion, Rachel S. Brass, a partner at Gibson, Dunn & Crutcher LLP, who was personally involved in cases against two companies cited in the article (one in Florida involving McDonalds's use of no-poach agreements, and another in Washington against Jimmy John's for the same), stated that the evidence in those cases showed that precisely the opposite happened: wages were higher before the elimination of no-poach agreements, and lower after.[23] This difference in theory and practice appears to be yet another real-world example of the aphorism that in theory, theory and practice are the same; in practice, they are not.

In a similar vein, while some studies correlate enforcement of noncompetes to lower wages, other variables may be at work. For example, as discussed during the Workshop, there are many factors and frictions that affect wages and job mobility. While corporate mergers and consolidation have been a focus, their prevalence may skew the research on the wage effects of noncompetes. Likewise, training repayment agreements, which were also a focus of some of the discussion during the Workshop, may have an impact that can be difficult to separate from the

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20 *Bundling Post Employment Restrictive Covenants*, at 22, 30.

21 Herbert Hovenkamp, *Antitrust and the FTC: Franchise Restraints on Worker Mobility* (Dec. 1, 2021), available at https://promarket.org/2021/12/01/antitrust-ftc-franchise-worker-mobility-labor/.

22 *Id.*

23 *See* 2021 Workshop Tr., Day 1, p. 20. Note that the written transcription is likely preliminary, given that it includes a number of transcription errors. In particular, it incorrectly transcribed the statement, "wages were higher before the provision was removed" as "we just were hired before the provision was removed." *See* video recording, available at https://doj-ftc-labor-issues-workshop-2021.videoshowcase.net/making-competition-work-day-1?category=191081, at 1:03:49-1:03:52.

impact of noncompetes,[24] especially if they are bundled together for low-wage, low-skilled workers.[25]

Workers Are Leaving Jobs in Record Numbers

Fifth, one of the chief concerns identified by proponents of federal regulation is that noncompetes stop workers from leaving their jobs.[26] These concerns seem to persist even amid the unprecedented period of worker mobility known as the "Great Resignation," during which U.S. employers have faced record numbers of voluntarily resignations in 2021.

The most recent available data from the U.S. Department of Labor, Bureau of Labor Statistics showed that all ten of the states with the highest "quit rates" in September 2021 enforce noncompetes (with varying state-specific regulations).[27] Further, the data suggest that most employees who quit do not remain unemployed for long. For each job opening in September 2021, there were only 0.74 unemployed people available, the lowest ratio on record.[28] Indeed,

24 At the 2020 Workshop, Professor Starr explained in this regard, "[W]hen you compare workers who have signed a non-compete to those who haven't, you have to worry that there are other differences between those workers, not just whether they have signed the non-compete, which could be driving any outcomes you observe . . . . And it makes it really tricky, and I don't think we really have any great studies so far that really isolate random variation in the use of non-competes . . . ." 2020 Workshop Tr., p. 158-59.

25 Terri Gerstein (director of the State and Local Enforcement Project at the Harvard Law School Labor and Worklife Program and a senior fellow at the Economic Policy Institute) commented that, in some ways, training repayment agreements are "even more insidious than non-competes" because they can effectively lock employees into a company, as opposed simply to preventing them from working for a competitor. 2021 Workshop Tr., Day 1, p. 67. A similar perspective was also expressed by LMU Loyola Law School Professor Jonathan Harris in his recent paper, *Unconscionability in Contracting for Worker Training*, 72 Alabama Law Review 723, 726, 749 (2021), available at https://ssrn.com/abstract=3642017.

26 We addressed this misconception in the July Submission. *See* July Submission, at 14.

27 Aimee Picchi, *Americans are quitting their jobs at record rates — here are the 10 states leading the trend* (Dec. 3, 2021), available at https://www.cbsnews.com/news/great-resignation-workers-quit-jobs-states-trend/.

28 *Id.*

the unemployment rate in the United States fell to 4.2% in November 2021, with eight states achieving record-low unemployment.[29]

The reasons for the Great Resignation are varied and complex, and it will take years of research to understand it fully. But one thing is clear: American workers are enjoying the greatest period of mobility (and bargaining power) in recent memory, without federal regulation of noncompetes.

Noncompetes Are Not Free

Sixth, although noncompetes are often challenged as suppressing wages, as discussed in the July Submission, "when advance notice is provided, people subject to noncompetes tend to have *higher* wages than people not similarly bound."[30] Another recent paper discussing the legal and practical aspects of noncompetes[31] is consistent with that conclusion insofar as noncompetes are contracts and, as such, must be supported by consideration (*i.e.*, something of value). Indeed, several states require employers to give some additional consideration on top of continued at-will employment when requiring current employees to sign noncompetes.[32] In these situations, and with advance notice, employees have the ability to decide if the consideration is worth the restriction.

Conclusions to be Drawn

As the above reflects, the body of research and analysis continues to expand, and, as it does, significant gaps in the prior research are continuing to emerge. Given this evolving understanding, the presence of conflicting information (as well as continued reliance on misplaced assumptions, such as the assumed increase in use of noncompetes[33]), and the high

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29 Reade Pickert, *Unemployment Rate Falls in Nearly All States, 8 at Record Low* (December 17, 2021), available at https://www.bloomberg.com/news/articles/2021-12-17/unemployment-rate-falls-in-nearly-all-states-8-at-record-low.

30 July Submission, at 16. As noted in the July Submission, the wage premium appears to be reduced as the laws permit greater noncompete enforcement, although other benefits persist. *Id.*, at 16 n.42.

31 Harrison Frye, *The Ethics of Noncompete Clauses* (2020), available at http://www.harrisonfrye.com/uploads/8/0/4/6/80469840/frye.ncc.online.pdf.

32 See July Submission, *Attachment B*.

33 *See Time for an Honest Policy Discussion*, *supra* n.19 (observing that comparing data from certain timeframes suggests that there has been no growth, and even a slight dip, in the use of noncompetes in the 2014-2018 timeframe).

stakes of regulation (including the potential for a significant adverse impact on the U.S. economy[34]), regulators should proceed with extreme caution. These issues are plainly more complicated than they might appear on superficial analysis, and there seems to be general agreement (including among some of the leading researchers themselves) that additional research is required.

3. INPUT CONCERNING ISSUES RAISED DURING THE WORKSHOP

Although there were many opinions, criticisms, and positive aspects of noncompetes discussed during the hearing, three comments bear specific consideration because of who made them.

First, FTC Chair Lina Khan characterized noncompetes as "take-it-or-leave-it agreements."[35] This is quite often accurate and, when it is, is a very fair criticism, not of noncompetes themselves, but of how they are distributed to employees.

As a threshold matter, "take-it-or-leave-it" agreements (or "contracts of adhesion" as they are often called) are not inherently harmful. For example, stock option agreements, long-term incentive bonuses, and stock awards (among others) are typically presented as "take-it-or-leave-it" agreements, but they can be extremely lucrative for the employee. More to the point, as previously noted, when noncompetes are rolled out with advance notice, some studies suggest that they can have positive implications for workers.[36]

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[34] The Defend Trade Secrets Act of 2016, P.L. 114–153 (codified at 18 U.S.C. § 1836), recognized the importance of trade secrets to the economy, companies, and employees, and specifically anticipated that it would supplement existing contractual protections. 114th Congress, 2nd Session, House of Representatives, Report 114-529, at 3-4 ("Companies have taken a number of measures to combat [trade secret misappropriation], including . . . employing strong contractual protections to safeguard their trade secrets in business relationships . . . ."); 114th Congress, 2nd Session, Senate, Report 114-220, at 2-3 ("By improving trade secret protection, the Defend Trade Secrets Act of 2016 will incentivize future innovation while protecting and encouraging the creation of American jobs."); Defend Trade Secrets Act, § 5 ("trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies").

[35] 2021 Workshop Tr., Day 1, p. 8.

[36] *See* Evan Starr, J.J. Prescott, and Norman Bishara, *Noncompete Agreements in the U.S. Labor Force* (2020) (identifying various positive effects of noncompetes when advance notice is provided, including higher earnings, more access to information, more training, and more job satisfaction), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714. Instructively, according to that study, more than half (52 percent) of people presented with a noncompete chose to "forgo[] the

Second, Assistant Chief Karina Lubell[37] stated that, like "other vertical restrictions," noncompetes are harmful, "especially for low income and other workers who are ill positioned to negotiate" the restrictions "or later challenge them in court."[38] Like Chair Khan's observation, Assistant Chief Lubell's observation identifies very real concerns.[39]

Typically, the indiscriminate use of noncompetes for low-income, low-skilled workers for whom the justifications for noncompetes rarely apply or are generally outweighed by countervailing considerations (including those noted by Assistant Chief Lubell) reflect an improper use of noncompetes. It is for that reason that ten states have already imposed bans on their use for such workers,[40] and we identified it as an area for suggested regulation in the July

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opportunity to negotiate [because] the terms were reasonable," while 41 percent assumed they were not negotiable, *id*. at p. 9, the latter of which could be addressed with advance notice and written notice of the right to discuss the contract with counsel (a requirement in Massachusetts and, effective January 1, 2022, in Illinois as well). Indeed, 55 percent of people presented with a noncompete before they accepted the offer thought it was reasonable and 48 percent thought they could negotiate it. *Id*. Similarly, Professor Matt Marx has observed that, "[i]f it were the case that workers made fully informed decisions about signing a non-compete and could negotiate higher compensation in exchange for doing so, *these agreements could be valuable for both workers and firms*." *See The Chilling Effect of Non-Compete Agreements*, by Matt Marx and Ryan Nunn (May 20, 2018) (emphasis added), available at https://econofact.org/the-chilling-effect-of-non-compete-agreements. *See also* Harrison Fry*, The Ethics of Noncompete Clauses* (discussing the exchange of benefits reflected in noncompete agreements), available at http://www.harrisonfrye.com/uploads/8/0/4/6/80469840/frye.ncc.online.pdf.

37 Ms. Lobell is the Assistant Chief of the Competition Policy & Advocacy Section, Antitrust Division at U.S. Department of Justice.

38 2021 Workshop Tr., Day 2, p. 79.

39 We neither address nor necessarily agree with the characterization of noncompetes as "vertical restrictions," nor do we address (beyond the discussion above at n.10) or necessarily agree with the extrapolations made by several speakers during the Workshop that, through a presumed chain of ill effects, noncompetes have adverse impacts on consumers (in the traditional sense), which could arguably bring their regulation within the FTC's purview. We do note, however, that the predicate for one such extrapolation – *i.e.*, that noncompetes prevent startups, which in turn prevents the creation of (assumed) improved products that the startup would have (presumably made and sold), which would have led to more competition, which would have led to lower prices, and thus harms the consumer – has (as noted above) been called into question by the Philadelphia Federal Reserve's recent study. *See above* n.6.

40 *See* July Submission, at 22 (chart).

Submission.[41] However, while low-wage, low-skilled workers present special concerns, there are many instances in which noncompetes have positive effects for all parties involved – the company that used them, the workers bound by them, and the employees that remain at the company.[42]

Finally, Chair Khan expressed her view that the antitrust laws can protect workers, and therefore the FTC is examining whether it has the power to regulate noncompetes[43] and other "take it or leave it agreements."[44] Although we generally support some regulation of noncompetes, we believe that the states are the appropriate source for such regulation, especially because the impacts of those restrictions can be tested in the smaller markets of the states (the laboratories of democracy) and evaluated over time. Indeed, at this point, approximately 3/4 of all states have considered amending their noncompete laws in recent years, with 24 states (and D.C.) making changes, three (and D.C.) this year alone (Illinois, Nevada, and Oregon).[45]

Further, if regulation were to happen at the federal level, Congress already has three bills specifically focused on employee noncompetes: two to ban them outright and one to prohibit them for nonexempt workers under the Fair Labor Standards Act.[46] As noted during the Workshop, however, there is legitimate concern that any action by the federal government would be "too heavy a hand"[47] and not allow for flexibility to accommodate state-by-state variations or distinguish among different industries, different jobs, or even different parts of the country (rural versus urban and suburban), all of which may have different implications that need to be addressed differently. For example, these differences might warrant variations in the length, scope, or propriety of noncompetes when these issues are considered on a more granular level.

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41 *See* July Submission, at 32.

42 *See*, *e.g.*, July Submission, at 16 & n.42, 20, 23 & n. 60, 27-28, 32 n.89.

43 There is little doubt that the FTC has authority to regulate intercompany transactions (*e.g.*, noncompetes in the context of a merger). The question about its authority really relates to regulation of *intra*company transactions (*e.g.*, noncompetes with its employees).

44 2021 Workshop Tr., Day 1, p. 8.

45 *See* Beck, *A Brief History of Noncompete Regulation* (Oct. 11, 2021), available at https://faircompetitionlaw.com/2021/10/11/a-brief-history-of-noncompete-regulation/.

46 *Id*. Congress also has a recently-filed bill (the Employment Freedom for All Act) that would "void existing non-compete agreements for any employee who is fired for not complying with an employer's COVID-19 vaccine mandate, and for other purposes." Information about the bill is available at https://www.congress.gov/bill/117th-congress/house-bill/5851/all-info.

47 2021 Workshop Tr., Day 1, at p. 57.

Again, noncompetes have been permitted and used in the vast majority of states across the entire arc of the country's rise to economic power. A drastic change in how American firms protect themselves against unfair competition (like a total ban or substantial additional restrictions on noncompetes) could have tremendous unforeseen, adverse consequences.

For all points not specifically addressed above, including recommended regulations (in the event the Commission seeks to regulate noncompetes or other restrictive covenants[48]), we incorporate our attached July Submission.

The signatories below wish to again express their great appreciation for your consideration of this submission and for taking on such an important and fraught issue. We are prepared to appear and testify live before the Commission and to offer any other assistance that the Commission or Department of Justice may find helpful, including providing additional real-world experience or assisting in the drafting of language for a rule, policy, or guidance.

Respectfully submitted,

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48 In that regard, there was discussion at the Workshop concerning nondisclosure agreements (also known as "confidentiality agreements"). However, the discussion focused on the use of such agreements to silence victims of alleged employer misconduct. Though sharing the same name, those nondisclosure agreements bear no relation to the purpose of nondisclosure agreements used to protect trade secrets and other confidential business information. Should the FTC consider regulating such agreements, we request the opportunity to supplement this submission to explain practical and legal requirements (under trade secret laws) for nondisclosure agreements.

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Attachments

The views and opinions expressed in this letter are those of the signatories in their individual capacity and do not necessarily reflect the views or opinions of their firms.

Attachment 1

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Janice Sued Agresti is an associate in Cozen O'Connor's New York City office, and is licensed to practice law in New York, New Jersey, and Pennsylvania. She is a litigator who represents both plaintiffs and defendants in trade secrets and restrictive covenant matters. She is also a trusted advisor who counsels her clients on noncompetition, nonsolicitation, and confidentiality agreements. Janice also has experience as in-house counsel during her time as a secondee to Marsh & McLennan Companies. Additionally, Janice litigates and advises on other employment matters, including discrimination, harassment, and retaliation matters before state court, federal court, and administrative agencies. Janice is an active member of the New York City Bar Association's Noncompete & Trade Secrets Committee.

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Jonathan Cooper is the founding member of the New York firm of the Law Offices of Jonathan M. Cooper. For years, Jonathan has worked extensively with clients in developing and drafting employment contracts and restrictive covenant agreements, and has tried numerous cases before New York's State and Federal courts pertaining to misappropriation of confidential information, tortious interference with contract, unfair competition, and the breach of noncompetition and nonsolicitation agreements. He has been recognized as a returning SuperLawyer and AV-Preeminent lawyer in the area of Business Litigation. Jonathan is the published author of six books, including "To Compete or Not to Compete: The Definitive Insider's Guide to Non-Compete Agreements Under New York Law," has published in the New York Law Journal on this topic, and has delivered several CLE lectures regarding noncompetition and nonsolicitation agreements.

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Jonathan L. Crook is the Knowledge Management Attorney at Jackson Lewis P.C. for the Restrictive Covenants, Trade Secrets and Unfair Competition practice group. Based out of Raleigh, North Carolina, Jonathan collaborates with practice group members around the country to craft agreements custom-made for each client, whether applicable to one state or all 50 states. Jonathan monitors case law and legislation at the state and federal levels to keep the practice group up-to-speed on material developments in the ever-evolving area of restrictive covenant law. As a former litigator, Jonathan has prosecuted and defended against claims for restrictive covenant breach, trade secret misappropriation, breach of fiduciary duty, and unfair competition, often involving requests for emergency injunctive relief. With this background, Jonathan serves as a resource for clients seeking to investigate potential wrongdoing through forensic analysis, remove sensitive material from the devices or accounts of departing employees, and file for protective relief in court, if necessary. Jonathan also works closely with practice group leadership to refine best practices and explore innovative ways to protect clients' business interests. Jonathan develops internal resources that increase efficiency on multi-state projects and contributes to the firm's thought leadership in blogs and legal updates.

Puneet Dhaliwal
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Puneet is an associate at Beck Reed Riden LLP, working on trade secret and restrictive covenant matters around the country. She graduated from Boston College Law School, where she served as President of the International Law Society and Vice President of the South Asian Law Student Association. Puneet was a judicial intern to Hon. Sarah Netburn at the U.S. District Court for the Southern District of New York.

Lee T. Gesmer
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Lee Gesmer is a founding partner of Gesmer Updegrove LLP. He has 40 years of experience in business and intellectual property litigation, which includes advising companies and employees on noncompete agreements and litigating and arbitrating noncompete disputes. He has presented educational programs on noncompete law before the Massachusetts and Boston Bar Associations. He co-authored the 2009, 2011 and 2013 (supplement) editions of Massachusetts Employment Law, Chapter 20: "Employee Noncompetition Agreements."

Scott Gibson
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For more than 35 years, Scott F. Gibson has helped businesses protect themselves from unfair competition and disloyal employees. He does so through a unique position in the law, a position based on a blend of skills derived from his courtroom experience and from a deep understanding of the legal theories implicated by unfair competition. As a result, his clients are able to more effectively protect their intangible business interests.

Scott has an uncanny ability to quickly spot the most important issues in a case, which enables him to focus on ways to resolve rather than expand litigation. He is an effective advocate and a creative negotiator for his clients. His ability to spot critical issues has helped many clients bring cases to an early conclusion through negotiation or motion practice. When a case cannot be settled through legal motions or favorable negotiations, Scott is a well-prepared and effective trial attorney.

Scott also is the only lawyer you will ever meet with two advanced legal degrees in cutting-edge areas of the law: Biotechnology and Genomics (LLM from the Sandra Day O'Connor College of Law at Arizona State University in 2007) and Litigation Management (LLM from Baylor Law in 2021). As part of his studies in Litigation Management, Scott performed specialized research into changing the way lawyers think about legal dilemmas to help clients avoid those problems before they arise.

In addition to being a student of the law, Scott is a skilled teacher. Since 2008, he has taught a course in Trade Secrets and Restrictive Covenants at the Sandra Day O'Connor College of Law at Arizona State University. He regularly writes, speaks, and teaches on trial skills, intellectual property, and employment law issues, particularly regarding trade secrets and restrictive covenants.

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Paul Kennedy is a senior member and former co-chair of Littler Mendelson's Unfair Competition and Trade Secret practice group. A practicing trial lawyer for nearly four decades, Kennedy's focus is litigating non-compete and trade secret cases. He regularly speaks before trade associations and professional groups on these topics, and also has testified on multiple occasions about legislation concerning non-compete restrictions.

Dawn Mertineit
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Dawn Mertineit is a litigation partner in Seyfarth's Trade Secrets, Computer Fraud and Non-Competes practice group. For more than a decade, Dawn has represented corporations and their directors and officers in a number of industries in complex commercial litigation, with special emphasis on noncompete and trade secrets litigation. She understands that many clients rely on noncompete and nonsolicitation agreements to protect their most valuable assets, while others face hurdles in recruiting and onboarding new employees bound by such restrictive covenants. Dawn brings her experience and knowledge of state and federal laws to help her clients navigate these issues, from drafting agreements and executing rollout and enforcement strategies, to analyzing competitor agreements and proposing recruitment and onboarding plans, and prosecuting or defending against claims related to breach of restrictive covenants or misappropriation of trade secrets. Dawn represents clients in trade secret and noncompete matters in a number of jurisdictions. This cross-state knowledge is particularly critical, as states continue to pass new legislation relevant to restrictive covenants and trade secrets. As the co-editor of and a frequent contributor to Seyfarth's award-winning Trading Secrets blog, Dawn remains current with new laws and key developments in this space, and provides clients with crucial updates about the laws that affect their businesses. In light of her thought leadership, Dawn has been quoted in a number of legal and industry publications, including Bloomberg Law, The American Lawyer, Law360, Massachusetts Lawyers Weekly, and SC Magazine.

Stephen T. Paterniti
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Stephen T. Paterniti is a principal in the Boston, Massachusetts, office of Jackson Lewis P.C. He concentrates his practice in the area of employment litigation and counseling on behalf of management. Steve advises and defends employers on employment issues including employment discrimination and harassment, non-competition, non-solicitation, and misappropriation of trade secrets, leave laws, wage and hour, OSHA, and reductions in force. He has extensive trial experience and appears frequently in state and federal courts, as well as administrative agencies such as the Massachusetts Commission Against Discrimination and the Equal Employment Opportunity Commission. He has successfully represented clients in federal and state discrimination litigation, restrictive covenant litigation, wage/hour class actions, contract claims, and other employment-related litigation. Prior to joining Jackson Lewis, he worked as a criminal prosecutor, both as an Assistant Attorney General for the Commonwealth of Massachusetts in its white collar crimes unit and also as an Assistant District Attorney in Hampden County.

Sally Piefer
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Sally Piefer is a partner in the employment law section of Lindner & Marsack, S.C.. With more than 25 years of experience, Sally represents employers in a variety of employment matters, with special emphasis in employment litigation, employment counseling and compliance issues. Sally's practice involves drafting, providing advice and litigating non-compete/non-solicitation agreements and trade secret claims across the United States. Sally's clients span numerous industries, including manufacturers, service companies, governmental entities, senior living, hospitality, retail, transportation, construction, non-profit, insurance and professional services firms. Sally earned her law degree from Marquette University.

Lauri F. Rasnick
Epstein Becker & Green P.C.
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Lauri Rasnick is a partner with Epstein Becker Green and has been practicing law for twenty five years. Lauri focuses her practice on representing employers with respect to a broad range of issues. Among other things, Lauri advises companies on drafting non-competition, nonsolicitation and confidentiality agreements and assists employers in hiring employees who are subject to restrictive covenants. She also regularly litigates and arbitrates employment cases including non-compete and trade secret matters in state and federal courts and arbitral forums. Lauri frequently speaks and write on trade secrets and restrictive covenants.

Susan Gross Sholinsky
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Susan Gross Sholinsky is the Vice Chair of both the Firm's Employment Labor & Workforce Management Steering Committee and its Diversity and Professional Development Committee. She gives employers the tools they need to make smart decisions about their workforce challenges. Executives, human resources, and in-house legal teams seek her out for her straight-forward advice and access to boots-on-the-ground resources, regardless of location. Susan spearheaded the firm's COVID-19 taskforce that provides employers with practical advice supported by training programs compliant in all 50 states, and dozens of pandemic-related policies and forms, as well as client advisories, blog posts, and articles. She also drafts employment agreements, offer letters, restrictive covenant agreements, policies, and other employment documentation. Whether she's conducting training on anti-harassment (similar to Epstein Becker Green's "Halting Harassment" online training tool) or leading training on diversity, internal investigations, or performance documentation best practices, Susan's effective training style helps managers spot problems early and boost productivity through safe, compliant practices.

Carson H. Sullivan
Paul Hastings LLP
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Carson Sullivan is a partner in the Employment Law practice of Paul Hastings and is the chair of the Washington, D.C. Employment Law Department. Ms. Sullivan represents employers in all aspects of employment law, with an emphasis on the defense of class and collective action suits and litigation involving trade secrets and restrictive covenants. She is a member of the firm's Employee Mobility and Trade Secrets practice group as well as the Pay Equity practice group.

Peter J. Toren
Peter J. Toren, Attorney at Law
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Peter J. Toren is a litigator with over 30 years of experience, who has successfully represented clients in a variety of matters in venues all over the United States at trial and appellate levels. He has a strong focus on patent, trademark, copyright, and trade secret cases.

Peter has represented clients in patent litigation involving a variety of technologies including computer software and hardware, light emitting diodes, bio-technology, semiconductor manufacturing and fabrication, optics and medical devices as well as business methods. He has successfully obtained and defended motions for preliminary injunctions and summary judgment motions involving the Patent Act, Copyright Act, Lanham Act, Digital Millennium Copyright Act and Computer Fraud and Abuse Act. In addition to intellectual property litigation. He also has experience in computer law including cybersecurity.

Before moving back to the D.C. area, Peter was a partner in the New York office of Sidley Austin. Before that, he was a federal prosecutor with the Computer Crime and Intellectual Property Section ("CCIPs") of the Criminal Division of the United States Department of Justice where he worked for over eight years and also served as Acting Deputy Chief.

UPDATED BIOGRAPHIES FOR SIGNATORIES TO JULY SUBMISSION

Jay M. Dade
Polsinelli
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Jay M. Dade is an experienced labor and employment lawyer who counsels clients on noncompete agreement implementation and enforcement; day-to-day personnel management and union management issues, including alcohol and drug testing policy implementation and enforcement; federal and state wage-hour matters; discrimination claims arising under federal and state law; Family and Medical Leave Act matters; unfair labor practice charges, union organizing campaigns, representation elections, and secondary activity and arbitrations; and unemployment compensation and eligibility proceedings. Jay represents clients regarding restrictive covenant enforcement matters in multiple states and across multiple industry and professional areas (including financial services, health care, manufacturing and media). He represents employers before the EEOC, National Labor Relations Board, U.S. Department of Labor, Missouri State Board of Mediation, numerous state and local fair employment agencies, as well as federal and state courts nationwide. He is a Chapter Editor for The Developing Labor Law and is the vice chair of the firm's employment litigation practice group.

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Jackie is a subject matter expert in the area of unfair competition and restrictive covenant agreements. She co-chaired Littler Mendelson's Unfair Competition and Trade Secrets practice group for almost a decade before leaving the firm in 2020 to start her own firm focusing on this subject area. Jackie is a frequent author and speaker on restrictive covenants and is the co-author of the treatises Unfair Competition and Intellectual Property Protection in Employment Law (Bloomberg BNA 2014) and Drafting and Enforcing Covenants Not to Compete (BNA 2009).

Tobias E. Schlueter
Ogletree, Deakins, Nash, Smoak and Stewart, P.C.
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Tobias Schlueter is the Managing Shareholder of the Chicago office of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. He is also the Chairperson of Ogletree's international Unfair Competition and Trade Secrets practice group. Mr. Schlueter has an extensive and proven track record of litigating high stakes cases involving unfair competition claims (including restrictive covenants (noncompete, nonsolicit and confidentiality), trade secrets, duties of loyalty, tortious interference, and civil conspiracy). He also routinely advises clients, including Fortune 100 companies, about their unfair competition matters. He extensively speaks and writes about these issues. Under Mr. Schlueter's leadership over the past five years, Ogletree has handled over 1,500 unfair competition, trade secrets, and restrictive covenant cases for more than 1,000 clients. From 2018-2020, Ogletree was the most active trade secrets law firm in the United States, representing both plaintiffs and defendants. Mr. Schlueter is rated by Chambers USA as a Top Ranked / Leading Lawyer in Labor & Employment (2017, 2018, 2019, 2020 and 2021). Mr. Schlueter is also recognized as a Best Lawyer in America (2017, 2018, 2019, 2020 and 2021) for Employment Law – Management. In 2020 and 2021, Super Lawyers recognized Mr. Schlueter as an Illinois "Super Lawyer." Super Lawyers previously named Mr. Schlueter as an Illinois Rising Star for 2011, 2012, 2013 and 2014.

Appendix 1

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July 14, 2021

Mr. Zach Butterworth
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Executive Office of the President
Washington, D.C. 20580

Federal Trade Commission
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Re: Written Submission of Practicing Attorneys Concerning Potential Federal Regulation of Noncompetition Agreements

Dear Director Butterworth and Commissioners:

We write today in connection with President Biden's July 9, 2021, Executive Order on Promoting Competition in the American Economy[1] and the FTC's anticipated deliberations concerning potential restrictions on employee noncompetition agreements (sometimes referred to as "noncompetes").[2] Specifically, we write to provide background information and a real-world, practical perspective fundamental to those deliberations, as well as a suggested approach that balances the competing interests at play and avoids an over-emphasis on nascent, inconclusive academic studies.

In that vein, we pause to emphasize the severity of one of the key issues that small and large businesses seek to address through the use of noncompetition agreements: "59 percent of

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1 Available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/.

2 Noncompetes are a type of restrictive covenant that can arise in many contexts, including (most commonly) in the employment context. Because the focus of potential regulation of noncompetes has been on their use in the employment context, we address those exclusively.

ex-employees admit to stealing confidential company information" when they leave their job.[3] The harm caused by this loss is substantial, estimated to be in the hundreds of billions of dollars a year.[4] When used appropriately, noncompetition agreements can be an extremely effective tool to prevent the harm caused by this type of information exfiltration.

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3 *More Than Half Of Ex-Employees Admit To Stealing Company Data According To New Study*, Ponemon Institute and Symantec Corporation (Feb. 23, 2009), available at https://investor.nortonlifelock.com/About/Investors/press-releases/press-release-details/2009/More-Than-Half-Of-Ex-Employees-Admit-To-Stealing-Company-Data-According-To-New-Study/default.aspx. The results of this study are consistent with a 2013 study by Symantec Corporation concluding that "[h]alf of the survey respondents say they have taken information, and 40 percent say they will use it in their new jobs." *What's Yours Is Mine: How Employees are Putting Your Intellectual Property at Risk*," Symantec Corporation (Feb. 6, 2013), available at https://www.ciosummits.com/media/solution_spotlight/OnlineAssett_Symantec_WhatsYoursIsMine.pdf. It bears mention that the estimates in both the studies are the product of employees self-reporting their misconduct, which, of course, begs the question of how many more employees have taken company information, but simply do not admit it.

4 In 2014, The Center for Responsible Enterprise and Trade (CREATe.org) and PricewaterhouseCoopers (PwC) estimated that the cost of trade secret misappropriation ranged from one to three percent of the U.S. Gross Domestic Product, possibly costing U.S. companies as much as $480 billion per year. *See* "*Economic Impact of Trade Secret Theft: A framework for companies to safeguard trade secrets and mitigate potential threats*," CREATe.org and PwC (Feb. 2014), available at https://www.innovation-asset.com/hubfs/blog-files/CREATe.org-PwC-Trade-Secret-Theft-FINAL-Feb-2014_01.pdf; *Update to the IP Commission Report*, *The Theft of American Intellectual Property: Reassessments of the Challenge and United States Policy*, The National Bureau of Asian Research on behalf of The Commission on the Theft of American Intellectual Property (2017) (citing the CREATe.org/PwC report), available at https://www.nbr.org/wp-content/uploads/pdfs/publications/IP_Commission_Report_Update.pdf; *but see Quantifying Trade Secret Theft: Policy Implications*, Ciuriak Consulting Inc. (April 9, 2021) (though focusing on international trade secret theft and questioning the CREATe.org/PwC study), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3706511.

Applying the CREATe.org/PwC 2014 estimates to the 2020 GDP of $20.93 trillion reveals that roughly $209 billion to $628 billion was lost last year as a result of trade secret theft. Further, given that 85 percent of trade secret thefts are committed by either an employee or someone else known to the party whose trade secrets were stolen, *see* David S. Almeling, Darin W. Snyder, Michael Sapoznikow, Whitney E. McCollum, Jill Weader, "A Statistical Analysis of Trade Secret Litigation in Federal Courts," 45:2 Gonzaga L. Rev. 291, 302-03 (2010), available at http://blogs.gonzaga.edu/gulawreview/files/2011/02/Almeling.pdf, it appears likely that the lion's share of the theft is occasioned when an employee moves to a competitor.

SUMMARY OF OUR SUBMISSION

Our submission covers five topics:

1. Our background in brief (offered solely for the purpose of enabling you to evaluate the credibility and utility of our submission).

2. The purpose and practicalities of noncompetition agreements.

3. Common misconceptions about the use, enforcement, and impact of noncompetition agreements.

4. Regulatory efforts across the country and what can be learned.

5. Recommendations for a fair approach, largely consistent with the recommendations made by the Obama Administration and the outcomes in states across the country.

In sum, we explain that, although sometimes abused, when used properly (as all of the signatories to this letter recommend) noncompetition agreements serve legitimate purposes that are important to the economy, and necessarily require a nuanced approach reflective of variations in jobs, industries, and state economies. We also explain, as one of the leading professors on the subject[5] observed, that the current research fails to "isolate random variation in the use of non-competes" that would be necessary to establish noncompetition agreements as the cause of negative outcomes.[6] Accordingly, we explain that any regulatory efforts should proceed with

[5] Professor Evan Starr of the Robert H. Smith School of Business, University of Maryland.

[6] Professor Starr explained, "[W]hen you compare workers who have signed a non-compete to those who haven't, you have to worry that there are other differences between those workers, not just whether they have signed the non-compete, which could be driving any outcomes you observe . . . . And it makes it really tricky, and I don't think we really have any great studies so far that really isolate random variation in the use of non-competes . . . ." Final Transcript of January 9, 2020 FTC Workshop – "Non-competes in the Workplace: Examining Antitrust and Consumer Protection Issues" ("FTC Workshop Tr."), p. 158-59, available at https://www.ftc.gov/system/files/documents/public_events/1556256/non-compete-workshop-transcript-full.pdf.

In a 2017 research paper, Cornell University Professor Matt Marx (another leading academic) summarized the scope, deficiencies, and limitations of the available research on noncompetition caution, understand the limitations of the existing research, and avoid adverse unintended consequences.

Nevertheless, some changes in the law would unquestionably benefit workers, without harming companies or the economy. Chief among them would be to require that an employee be provided advance notice if a noncompete will be required as part of a job. That single change would, according to a 2019 study discussed below, offset the alleged adverse wage impacts of noncompetes.

Other changes we recommend (to the extent the FTC determines that it has the authority to regulate in this area) are directed to leveling the playing field and increasing transparency and fairness in the use of noncompetes.

DISCUSSION

1. OUR BACKGROUND

The 59 signatories to this submission include lawyers and paralegals from around the country, all with extensive relevant experience representing clients (from Fortune 50 companies to "mom and pop" shops to individual employees) in countless trade secret and noncompete matters on all sides of these disputes. Among the signatories are some of the country's leading authorities in the inextricably-related laws of noncompetes and trade secrets. Through our work helping thousands of clients, we have each seen first-hand the varied approaches that companies take to protecting their information, customer relationships, and other recognized "legitimate" business interests; the benefits and detriments of noncompetition agreements (and other restrictive covenants); and the practical, real-world impact they have on employees and employers alike.

Further, this letter includes input from, and is signed by, some of the same people who provided information relied upon by the U.S. Department of the Treasury and the White House in connection with President Obama's 2016 investigation into noncompetes,[7] including

agreements in a paper available at https://sih.berkeley.edu/wp-content/uploads/2018/06/Employee-Non-compete-Agreements.pdf.

[7] The resulting reports were: *Non-compete Contracts: Economic Effects and Policy Implications*, U.S. Department of the Treasury, Office of Economic Policy (March 2016), available at https://www.treasury.gov/resource-center/economic-policy/Documents/UST Non-competes Report.pdf; *Non-Compete Agreements: Analysis of the Usage, Potential Issues, and State Responses*,

participants in the small working group convened by President Obama's Administration to develop the resulting Call to Action.[8]

A brief biography of each of the signatories (with a link to the individual's full on-line biography) is provided as *Attachment A*.

We thank you for your consideration of the matters addressed in this letter.

2. THE PURPOSE AND PRACTICALITIES OF NONCOMPETITION AGREEMENTS

What Are Noncompetes And How Are They Used?

Regulated for more than 200 years by state law, noncompetition agreements place restrictions on the permissible post-employment competitive conduct of an employee.[9] But the restrictions are cabined; no state permits unfettered use of noncompetes. Rather, each of the 47 states that permit noncompetes[10] allows them to be used only as necessary to protect companies

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White House (May 2016), available at https://obamawhitehouse.archives.gov/sites/default/files/non-competes_report_final2.pdf.

[8] *State Call to Action on Non-Compete Agreements*, Obama Administration (2016), available at https://obamawhitehouse.archives.gov/sites/default/files/competition/noncompetes-calltoaction-final.pdf.

[9] *See* Catherine L. Fisk, Catherine L. Fisk, WORKING KNOWLEDGE: TRADE SECRETS, RESTRICTIVE COVENANTS IN EMPLOYMENT, AND THE RISE OF CORPORATE INTELLECTUAL PROPERTY, 1800–1920, 52 Hastings L.J. 441, 453–54 (2001), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=262010; Russell Beck, NEGOTIATING, DRAFTING, AND ENFORCING NONCOMPETITION AGREEMENTS AND RELATED RESTRICTIVE COVENANTS, at § 2.1, at 2-2 – 2-6 (MCLE, Inc. 6th ed. 2021); *Hess v. Gebhard & Co.*, 808 A.2d 912, 918 n.2 (Pa. 2002) ("The earliest known American case involving a restrictive covenant is *Pierce v. Fuller*, 8 Mass. 223 (1811).").

[10] Only three states prohibit noncompetes generally: California (since 1872; *see Edwards v. Arthur Andersen LLP*, 44 Cal.4th 937, 945 (2008)); North Dakota (since 1865 – before North Dakota was even a state; *see Werlinger v. Mutual Service Cas. Ins. Co.*, 496 N.W.2d 26 (N.D. 1993)); and Oklahoma (since 1890 – before Oklahoma was a state; *see Noncompetes in Oklahoma Mergers and Acquisitions*, 88 Oklahoma Bar Journal 128, at n.2 (Jan. 21, 2017)).

Contrary to frequent confusion, although Montana at one point interpreted its statute as a ban, the Montana Supreme Court established (at least as of 1985) that Montana law does *not* ban employee noncompete agreements. *See Wrigg v. Junkermier, Clark, Campanella, Stevens, P.C.*, 362 Mont.

from certain types of unfair competition. And, over the course of time, state laws have evolved in ways that make sense for the citizens, industries, and economies of each state.[11]

Despite the state variations,[12] noncompetes are generally disfavored in the law and as a result, unlike most contracts, will not be enforced unless a court determines that it is reasonable and appropriate to do so. In most states, that means that courts will review the reasonableness of the restraint, balancing the interests of the employee against the interests of the employer in the particular case. Specifically, noncompetes are typically considered enforceable if, and only to the extent that, in addition to satisfying other requirements (such as meeting all state-based contractual formalities), they are:

496, 503-07 (Mt. Sup. Ct. 2011); *Dobbins, DeGuire & Tucker, P.C. v. Rutherford, MacDonald & Olson*, 218 Mont. 392, 396-97 (Mt. Sup. Ct. 1985).

Although not a state, in 2021, Washington, D.C. passed a law prohibiting all noncompetes, except (contrary to what many states are doing) permitting noncompetes to be used for volunteers, casual babysitters, government employees, lay members holding office in a religious organization engaged in religious functions, and "medical specialists" (essentially physicians earning at least $250,000). *See* B23-0494 - Ban on Non-Compete Agreements Amendment Act of 2019 (available at https://lims.dccouncil.us/Legislation/B23-0494). The D.C. law, which will not become effective until funded, is the subject of pending amendments. *See* Council Bill 240256, available at https://legiscan.com/DC/bill/B24-0256/2021.

11 The need for this very type of state-specific analysis was observed over 20 years ago by Ronald Gilson in his seminal comparison of Silicon Valley's tech sector to Massachusetts' Route 128 Miracle Mile. *See* Ronald J. Gilson, THE LEGAL INFRASTRUCTURE OF HIGH TECHNOLOGY INDUSTRIAL DISTRICTS: SILICON VALLEY, ROUTE 128, AND COVENANTS NOT TO COMPETE, 74 N.Y.U. L. REV. 575, 627-29 (1999) ("[B]ecause industries are not randomly distributed across jurisdictions, each state's particular industrial population may dictate a different balance. . . . Given the opportunity to act by design rather than by historical accident, the better approach may be to craft a legal infrastructure that has the flexibility to accommodate the different balance between external economies and intellectual property rights protection that may be optimal in different industries.").

12 Of the 47 states that allow the use of employee noncompetes, 24 of them have statutes supplemented by common law, while the rest rely on common law that generally follows the Restatement (Second) of Contracts, § 188. *See* Beck, *Employee Noncompetes, A State-by-State Survey* ("*50 State Noncompete Survey*"), available at https://www.beckreedriden.com/50-state-noncompete-chart-2/. Originally drafted in 2010, this chart is updated periodically; the most current version (June 27, 2021, as indicated on the chart) is attached for your convenience as *Attachment B*.

- reasonable in duration (commonly one to two years[13]);
- reasonable in geographic reach (generally limited to the territory in which the employee worked or had a material impact, including where the confidential information to which the employee had access could be used to unfairly compete against the employer);
- reasonable in scope of restricted activities (typically related to the type of work the employee performed for the employer or work in which the employee would be likely to use the employer's confidential information);
- necessary to protect the enforcing party's legitimate business interests[14] (see *Legitimate Business Interests Protected by Noncompetes*, below); and
- consonant with public policy.

Legitimate Business Interests Protected by Noncompetes

The interests that may be protected by a noncompete are circumscribed by state law. While state laws vary to some degree, the protection of trade secrets is a fundamental private right, universally recognized as a legitimate business interest.[15]

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13 Some states have recently begun to statutorily limit the duration of the restricted period. For example, as of 2016, Oregon limits noncompetes to 18 months, ORS 653.295(2), and, effective 2022, will be limiting them to one year. In 2018, Massachusetts limited noncompetes to one year (unless the employee breached their fiduciary duties to the employer or unlawfully took property of the employer). G.L. c. 149, § 24L(b)(iv). Taking a different approach, rather than prohibiting noncompetes based on a bright-line rule, the state of Washington has made noncompetes longer than 18 months *presumptively* unreasonable and unenforceable. RCW 49.62.020.

14 The business justifications for noncompete agreements are generally referred to as "legitimate business interests," "protectable interests," or something similar.

15 *See 50 State Noncompete Survey*. Indeed, even the three states that prohibit (most or all) noncompetes (California, North Dakota, and Oklahoma) and Washington, D.C. (discussed above, *see supra* at p. 6, n.10) have adopted a version of the Unform Trade Secrets Act and recognize the importance of protecting trade secrets. *See* Beck, *Trade Secrets Acts Compared to the UTSA* ("*50 State Trade Secrets Comparison Chart*"), available at https://www.beckreedriden.com/trade-secrets-

The next most widely recognized protectable interest is goodwill developed by the company (through the work it pays its employees to perform) necessary to maintain the employer's continued relationships with its customers.[16] Goodwill is frequently the primary concern in certain sectors (notably, the staffing industry) and for companies managing departing salespersons.

Other legitimate business interests exist, though they vary by state. For example, some states permit the use of noncompetes to ensure that employer investments in employee training are both promoted and protected, while others recognize the need to encourage and protect an employer's extraordinary investments in developing an individual employee's unique skills to meet specific competitive opportunities.[17]

The Relationship Among Trade Secrets, Nondisclosure Agreements, and Noncompetes

To fully understand the need for noncompetes to protect trade secrets, some additional background is useful. Specifically, it is important to understand the relationship among trade secrets (the universally protected interest) and the three primary tools to protect them: trade secret law, nondisclosure agreements, and noncompetes.

As each is considered below, it is helpful to recognize that employees are at the center of most aspects of trade secrets: Trade secrets could not exist without the work of employees, cannot be protected without the efforts of employees, and would seldom be compromised or lost without the conduct of employees.

While employers and employees are generally aligned in protecting trade secrets for their mutual benefit at the beginning of and during the employment relationship, an employer's interest in protecting its trade secrets and an employee's interest in engaging in future employment may clash when the employment relationship comes to an end. This potential conflict is complicated by the fact that, although the departing employee is at the end of one employment life cycle, they are typically simultaneously at the beginning of the next, where the former's employer's risk of compromise or loss of its trade secrets corresponds directly to the

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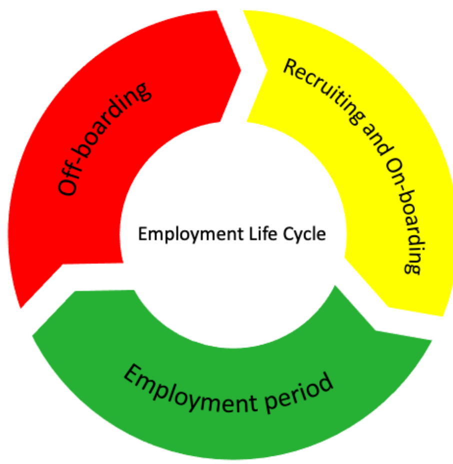
laws-and-the-utsa-a-50-state-and-federal-law-survey-chart/. (Originally prepared on August 14, 2016, this chart has been updated as laws have changed and is current as of the date indicated.)

16 *50 State Noncompete Survey.*

17 *Id*. (see, *e.g*., Alabama, Arkansas, Colorado, Florida, Iowa, Kansas, Kentucky, Louisiana, Maryland, New York, Pennsylvania, Tennessee, Texas, and Utah).

new employer's risk of infiltration of those same trade secrets in a way that contaminates its work. Accordingly, these issues can be conceptualized from a chronological perspective of the employment relationship, from recruiting and on-boarding, to the period of employment, to the off-boarding of an employee, and back to the on-boarding, reflected visually as follows:



Trade Secrets and Trade Secret Law: Trade secrets are information having economic value (actual or potential) derived from the fact that they are secret – and they must have been the subject of reasonable efforts to maintain secrecy. Trade secrets are protected by state trade secret laws and, as of May 11, 2016, by federal law as well.[18]

Information failing to qualify as a trade secret is not protectable under trade secret laws – state or federal. But just because the information may not qualify as a trade secret does not mean that it is unimportant to the business. For example, a significant source of disagreement in trade secret lawsuits can be customer information (often, complete or partial customer lists). Some states include customer information or customer lists in the definition of trade secrets.[19] Others

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[18] On May 11, 2016, the Economic Espionage Act, 18 U.S.C. §§ 1831-1839, was amended by the Defend Trade Secrets Act of 2016 (DTSA) to create a private right of action for the protection of trade secrets under federal law.

[19] *See 50 State Trade Secrets Comparison Chart*; Sid Leach, *Anything but Uniform: A State-By-State Comparison of the Key Differences of the Uniform Trade Secrets Act*, available at https://www.swlaw.com/assets/pdf/news/2015/11/06/How Uniform Is the Uniform Trade Secrets Act - by Sid Leach.pdf.

do not.[20] In the states that do not, the threshold battle typically involves whether the customer information can even be a trade secret. And, even when it *can* be a trade secret, parties still spar over (among other things) whether the particular customer information in fact qualifies as a trade secret. The ease or difficulty of compiling the information and the reasonableness of the efforts taken to maintain its secrecy are also frequent battlegrounds in these cases.

One of the most nuanced issues in trade secret law is how to handle the fact that trade secrets can often be retained in a person's memory. As a general matter, the mere fact that information is lodged in someone's head does not strip it of its trade secret qualities or the available protections. The secret formula to Coca-Cola is an example.[21] There are reportedly only two people in the world who know it – each purportedly knows all of it, not just a portion.[22] And, neither can lawfully disclose it to PepsiCo (or anyone else).

An example of how this issue can present a significant threat to a company (in a context in which the company is unable to use a noncompete) is a Chief Marketing Officer (CMO) who worked on the company's strategic plan and then leaves for a competitor to be its CMO, developing its strategic plan. The information the CMO knows about the former employer's plans may inform decisions about the new employer's strategic plan. How can the CMO avoid taking advantage of the weaknesses in the prior employer's strategy, or avoid getting tripped up by the strengths of that plan, as he or she maps out the course for the new company?

Another type of information presenting the same problem is the so-called "blind alley" (or "negative information"), *i.e.*, information that was considered and rejected on the path to finding the right solution. The product WD-40 provides a good example. WD-40 is the lubricant that unsticks things that are stuck, but should not be, and fixes squeaks.[23] Anyone

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[20] *Id*.

[21] The references in this letter to Coca-Cola, Pepsi, and WD-40 are to well-known products for illustrative purposes only. No signatory to this letter is endorsing any statement as to any such company or product outside the context of this letter, nor doing so as counsel for, or as an agent of, any such company or any company competitive thereto. Accordingly, nothing in this letter is an admission by or on behalf of any such company or any party with interests adverse thereto.

[22] *Coca-Cola's Secret Formula Coca-Cola's formula is not really so much of a secret that only two men each know half of it*, available at https://www.snopes.com/fact-check/coca-cola-fomula/?collection-id=209643.

[23] As they say on their website, "You need only two things in life: duct tape and WD-40; if it moves and shouldn't, use duct tape, if it doesn't move and should, use WD-40."

setting out to create a similar product would benefit from knowing the rejected formulas.[24] And someone who knows those failed efforts (such as a chemist who worked on their development) would be unlikely to blindly recreate them (knowing they will fail) if they were attempting to make their own similar product. Instead, they would be tempted to reject those failed formulas at the outset, thereby saving substantial research and development efforts and cost.

Despite all of this, some states' laws do not fully address the risks surrounding the hypothetical Coca-Cola executive working on Pepsi's secret formula, the CMO working on the new employer's strategic plan, and the WD-40 chemist working on the new competitive product. And even where the law provides protection in the abstract, in most cases the details of a departing employee's potential misconduct remain unknowable to the former employer. In this sense, litigation over potential misappropriation of a trade secret – which can be expensive and disruptive for all parties involved – is inherently imperfect as a means of protecting that secret.

Nondisclosure Agreements: Nondisclosure agreements (NDAs) (sometimes called "confidentiality agreements") are agreements by which someone (frequently an employee or business partner) promises not to use or disclose the other party's information. These agreements are typically a prerequisite to a company's ability to protect its trade secrets and other confidential information.[25]

NDAs serve multiple important purposes, including putting employees on notice that the company has information that may be confidential in general, and identifying for the employee particular types of information that the company considers confidential. Also, nondisclosure agreements are an important building block in a company's efforts to take (and ability to demonstrate that it has taken) reasonable measures to protect its information. They may also provide a breach of contract remedy for the taking of company information (to the extent not preempted by applicable state trade secret laws).

Like trade secret laws, NDAs do not prevent an employee from working for a competitor, even in the situations described above (involving the CEO, CMO, and chemist). While courts enforcing NDAs will typically order the return of information, they will rarely prevent employees from working for the competitor, thereby leaving the former employer to police the

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[24] WD-40 stands for "Water Displacement perfected on the 40th try." Accordingly, there were 39 formulas that were rejected before the formula was finally perfected. Knowing those earlier failed attempts, and therefore knowing to avoid, them would necessarily save substantial time and resources in the development of a competing product.

[25] Confidential information is a broad category of information of which trade secrets are a part.

former employee's conduct (*i.e.,* use of its trade secrets) without all the tools that may be necessary to prevent irreparable harm.[26] Further, some courts have recently begun heavily scrutinizing nondisclosure agreements, rendering them entirely unenforceable if they purport to cover information too broadly.[27]

Noncompetes: Noncompetes can be an important tool in the protection of trade secrets, especially in scenarios like those described above. Specifically, they can serve as a prophylactic to prevent the very circumstances in which trade secrets are most likely to be put at risk, thereby preventing the use or disclosure before it happens. Thus, they can provide effective protection against the greatest potential threat to trade secrets: when employees move to a competitor.

As noted above, "59 percent of ex-employees admit to stealing confidential company information" when they change jobs, the economic consequences of which are estimated to be in the hundreds of billions of dollars a year.[28] Accordingly, noncompetition agreements – when used appropriately – can be a critical tool to prevent the harm caused by this type of information exfiltration, as well as the correlative inbound contamination of a new employer's existing information and work product.

The threat to the economy and to the innovation reflected in trade secrets is so great that it led to the passage of the Defend Trade Secrets Act of 2016[29] (DTSA), establishing a federal private right of action for trade secret misappropriation.

But neither trade secret law (including even the DTSA) nor nondisclosure agreements can provide the level of protection, deterrence, and clarity offered by noncompetes.[30] As such,

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26 Because "a secret once lost is . . . lost forever," *FMC Corp. v. Taiwan Tainan Giant Indus. Co., Ltd.*, 730 F.2d 61, 63 (2nd Cir. 1984), and policing a former employee's (and their new employer's) conduct is generally quite difficult, noncompetes can provide much more reliable protection for the integrity of a company's trade secrets than litigation claiming misappropriation.

27 *See*, *e.g.*, *TLS Management and Marketing Services, LLC v. Rodríguez-Toledo*, 966 F.3d 46, 56-61 (1st Cir. 2020); *Brown v. TGS Management Company, LLC*, 57 Cal.App.5th 303, 315-18 (Cal. App. 4th Dist. 2020).

28 *See supra* at pp. 1-2 & n.3 & 4.

29 *See supra* at p. 9, n.18.

30 There are other agreements that are also designed to protect recognized legitimate business interests as well. They include:

noncompetition agreements can be a critical tool to prevent the harm caused by this type of information exfiltration, and to help employees avoid new employment relationships that will tempt, or create the very real prospect of, their breach of confidentiality obligations. Rather than putting the parties and the court to the expense and uncertainty of litigation, noncompetes operate to temporarily prevent an employee from taking a role with a competitor that would put the former employer's trade secrets and other confidential business information at risk of being used, including by being relied upon, or disclosed.[31]

3. Common Misconceptions About The Use, Enforcement, And Impact Of Noncompetes

There are many misconceptions about noncompetes. We address some of the more common ones below.[32]

- nonsolicitation agreements, which for a limited time prohibit a former employee from soliciting customers with whom they worked while at their former employer or about whom they acquired confidential information through their prior employer;
- no-service agreements, which for a limited time prohibit a former employee from working with customers with whom they worked while at their former employer or about whom they acquired confidential information through their prior employer; and
- no-recruit or no-raid agreements, which for a limited time prohibit a former employee from recruiting former colleagues from their prior employer.

These less-restrictive agreements are often reasonably effective at achieving their purpose without the need for the additional restrictions associated with noncompete agreements. Indeed, many judges will not enforce a noncompete against a salesperson absent some other wrongdoing by that person. However, in some circumstances, these other "lesser" restrictions prove to be insufficient. This is precisely why the new Massachusetts noncompete law expressly authorizes courts to impose a "springing noncompete" (or a "time out noncompete," as John Marsh, a signatory to this letter, has called them) when an employee violates these other contractual obligations, or certain other obligations. *See infra* at p. 33.

31 As also noted above, states vary on the other interests that can be protected through noncompete agreements. *See Attachment B* (*50 State Noncompete Survey*). In that vein, for companies for which customer contacts are the key to the business, noncompetes can prevent even the subtle customer solicitation that might otherwise occur.

32 A more detailed discussion of popular assumptions about the impact of noncompetes and a discussion

Misconception: Noncompetes Prevent Employees From Working

Some commentators claim broadly that noncompetes prevent employees from working. This is not true. Noncompete agreements cannot (lawfully) be used simply to prevent an employee from quitting their job, working in their field, or using their general skills and knowledge.[33] Rather, as applied by the courts, noncompetes restrict only competition that puts at risk the protectable information or other interest of a former employer.[34]

Even under the restriction of a noncompete, employees remain free to resign and work for a company where they will use their general skill and knowledge. For example, Coca-Cola's CEO can be the CEO at any company that does not compete with The Coca-Cola Company. The CMO described above can be a CMO at any company that does not compete with his former employer. And the chemist described above can be a chemist working on anything other than a product competitive with WD-40. What they cannot do is use or put at risk their former employer's trade secrets on behalf of a new employer. Accordingly, when used properly, noncompetes prevent only *unfair* competition. (Abusive application of noncompetes is addressed below.)

Misconception: Noncompetes Are Used With Increasing Frequency

A very common assumption about noncompetes is that they are being used with increasing frequency. There is no empirical evidence to support this. In contrast, using the

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of the limited research available to date is set forth in "*Misconceptions In The Debate About Noncompetes*," Law360, July 8, 2019 (reprinted on *Fair Competition Law* as "*Correlation Does Not Imply Causation: The False Comparison of Silicon Valley and Boston's Route 128*," available without subscription at https://www.faircompetitionlaw.com/2019/07/09/correlation-does-not-imply-causation-the-false-comparison-of-silicon-valley-and-bostons-route-128/). *See also* Matt Marx, SCIENCE POLICY RESEARCH REPORT: EMPLOYEE NON-COMPETE AGREEMENTS (June 2018) (discussing existing noncompete research), available at https://sih.berkeley.edu/wp-content/uploads/2018/06/Employee-Non-compete-Agreements.pdf.

33 A noncompete prevents someone from working for a competitor in a role in which they would likely use trade secrets or otherwise engage in unfair competition. Such a restriction can, of course, have collateral effects, preventing what would otherwise be lawful competitive activities (depending on the nature of the planned role and extent of the noncompete restriction as applied).

34 *Cleaning up overly broad noncompetes: the "Janitor Rule,"* available at https://faircompetitionlaw.com/2018/07/04/cleaning-up-overly-broad-noncompetes-the-janitor-rule/.

number of reported judicial opinions about noncompetes as a proxy, we can conclude that the use and enforcement of noncompetes has remained roughly static during the last decade. But because reported anecdotes create a different impression,[35] some pundits claim that noncompetes are increasingly used for lower-level employees, and have correlated that with slow wage growth since the Great Recession, blaming the latter on the former. However, this too is not supported by empirical analysis.

Indeed, we are unaware of any longitudinal studies finding that the use of noncompetes has risen over the years. We know only that, as Professor Starr explained, "roughly 18 percent of the U.S. workforce [was] bound by a non-compete [in 2014]. Among low-skill workers . . . without a college degree, it's about 15 percent."[36] But, we also know that the use of noncompetes dates back at least to medieval times, when master craftsmen tried to restrain their apprentices from using the skills the masters taught them.[37] And a century ago, noncompetes were already being used for low-wage and blue collar workers.[38]

Misconception:
Noncompetes Depress Wages

As to the effects on wages, we do not know whether there is something about the way noncompetes have been used recently that has stifled wage growth. Slow wage growth has apparently been a persistent problem for at least the last 50 years – not just since the Great

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35 *Non-compete Contracts: Economic Effects and Policy Implications*, U.S. Department of the Treasury, Office of Economic Policy (March 2016), available at https://www.treasury.gov/resource-center/economic-policy/Documents/UST Non-competes Report.pdf.

36 *Study Finds Many Companies Require Non-Compete Clauses For Low-Wage Workers* (Nov. 7, 2016), available at https://www.npr.org/2016/11/07/501053238/study-finds-many-companies-require-non-compete-clauses-for-low-wage-workers.

37 *See* Catherine L. Fisk, WORKING KNOWLEDGE: TRADE SECRETS, RESTRICTIVE COVENANTS IN EMPLOYMENT, AND THE RISE OF CORPORATE INTELLECTUAL PROPERTY, 1800–1920, 52 Hastings L.J. 441, 453–54 (2001), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=262010.

38 *See*, *e.g.*, *J. & J.G. Wallach Laundry System v. Fortcher*, 191 N.Y.S. 409, 116 Misc. 712 (Supr. Ct. N.Y. 1921) (noncompete enforced against laundry delivery driver); *Eureka Laundry Co. v. Long*, 146 Wis. 205, 131 N.W. 412 (Wisc. 1911) (noncompete enforced against laundry delivery driver); *Simms v. Patterson*, 55 Fla. 707, 46 So. 91 (Sup. Ct. Fla. 1908) (noncompete used for a "salesman and shipping clerk").

Recession or the concomitant supposed increase in the use and abuse of noncompetes.[39] Moreover, recent pre-pandemic reports indicate that wages had in fact picked up of late.[40] In sum, without the benefit of studies on how noncompete use has changed over years, no one can pronounce noncompetes to be the cause of slow wage growth (whether for low-wage workers or anyone else).[41]

However, we do know (as set forth below) that noncompetes can *increase* wages for certain employees (executives and physicians, for example) and, more importantly, that when advance notice is provided, people subject to noncompetes tend to have *higher* wages than people not similarly bound.[42]

Misconception: Every Restrictive Covenant Is A Noncompete

A major source of confusion in this debate consists of those who conflate or confuse noncompete agreements with nondisclosure or nonsolicitation covenants. As noted above, they

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39 *America's slow-motion wage crisis*, by John Schmitt, Elise Gould, and Josh Bivens (Sept. 13, 2018), available at https://www.epi.org/publication/americas-slow-motion-wage-crisis-four-decades-of-slow-and-unequal-growth-2/.

40 *See Why Wages Are Finally Rising, 10 Years After the Recession*, by Ben Casselman, *The New York Times* (May 2, 2019) https://www.nytimes.com/2019/05/02/business/economy/wage-growth-economy.html; *U.S. labor costs rise in third quarter*, Reuters (October 31, 2019) https://www.reuters.com/article/us-usa-economy-costs-idINKBN1XA1PC.

41 For more, *see President Biden's Proposed Ban of (Most) Noncompetes: Protection Strategies and Steps to Take Now* (observing that "if noncompetes were in fact the root cause of comparatively depressed wages, one would think that California . . . would have the highest median income (all things being equal). But it doesn't. It has the 10th" and "every other state . . . above California (*i.e.*, with a higher median income) enforces noncompetes."), available at https://faircompetitionlaw.com/2020/12/02/president-bidens-proposed-ban-of-most-noncompetes-protection-strategy-and-steps-to-take-now/.

42 It bears noting that the positive impact of advance notice on wages appears to diminish in states with greater relative enforceability of noncompetes. *See* Evan Starr, J.J. Prescott, and Norman Bishara, *Noncompetes in the U.S. Labor Force*, at 15-16 (Oct. 12, 2020) ("[W]hile greater enforceability is associated with more training for individuals with early-notice noncompetes, the wage premium for agreeing to a noncompete also diminishes with enforceability, regardless of noncompete timing."), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714. Accordingly, the additional recommendations below should assist in preserving the positive wage effects of advance notice.

are often related, but are legally and practically distinct. This confusion is a potential foundational problem in some of the data used in studies to assess the effects of noncompetes.

Misconception: Union Members Are Subject To Noncompetes

A related misconception that arises occasionally is that union workers are required to sign noncompetes. Outside of the context of professional athletes and certain media professionals, noncompetes are rarely a part of a union contract. Rather, union members are sometimes bound by perfectly reasonable restrictions on their competitive activities *during* their employment – again potentially demonstrating some of the confusion concerning what restriction has been agreed to.[43]

Misconception: Noncompetes Are Routinely And Vigorously Enforced

Another misconception is that noncompetes are regularly enforced and are enforced with extreme vigor. Once again, we are unaware of any studies revealing the frequency of such enforcement by courts (or arbitrators) or that examine in a reliable way how enforcement may have changed over time.[44] However, over the past decade and a half, the number of reported court decisions (*i.e.*, published rulings by judges and collected in Westlaw's database) involving

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43 In that vein, during the FTC's January 9, 2020, workshop on noncompetes ("Non-competes in the Workplace: Examining Antitrust and Consumer Protection Issues"), Damon Silvers, Policy Director and Special Counsel to the AFL-CIO, explained, "I can tell you that unions never agree to non-compete agreements. I have never seen a collective bargaining agreement that had one in it." Final Transcript of the FTC January 9, 2020, workshop ("FTC Workshop Tr."), p. 54-55, available at https://www.ftc.gov/system/files/documents/public_events/1556256/non-compete-workshop-transcript-full.pdf.

44 In any useful study, consistent nomenclature will be important. "Enforcement" can take many forms, ranging from merely reminding the employee about the existence of the noncompete to bringing a lawsuit and seeking injunctive relief from a court.

noncompetes has largely remained the same[45] despite the (pre-pandemic) growing workforce[46] and somewhat increased number of job changes per capita.[47] This leveling off of the number of court decisions may suggest that fewer noncompetes are being used, fewer noncompetes are being enforced, or both.

In contrast, trade secret litigation appears to have increased substantially during that same period.[48] Further, more trade secret litigation occurs in California than any other state, perhaps suggesting that litigation is being used as a substitute for the unavailable tool of a noncompete.[49] To the extent that such a conclusion can be properly drawn, it stands to reason that a national ban on the use of noncompetes would have similar results nationally.[50]

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45 *See Trade Secret and Noncompete Case Growth Graph* ("*Case Growth Graph*") (Updated January 2, 2021), available at https://faircompetitionlaw.com/2021/01/02/new-trade-secret-and-noncompete-case-growth-graph-updated-january-2-2021/. (The chart is a "back-of-the-envelope" count intended to demonstrate relative numbers per year, not provide absolute numbers. Further, the counts in the most recent years tend to be significantly underreported as a consequence of the timing and manner in which Westlaw updates its database; accordingly, it is difficult to draw any meaningful conclusions from the counts in the last few years.)

46 *See* Civilian Labor Force Level, January 1, 1948, through February 2020, available at https://fred.stlouisfed.org/series/CLF16OV.

47 *How Many Times Will People Change Jobs? The Myth of the Endlessly-Job-Hopping Millennial*, by Jeffrey R. Young (July 20, 2017), available at https://www.edsurge.com/news/2017-07-20-how-many-times-will-people-change-jobs-the-myth-of-the-endlessly-job-hopping-millennial.

48 *See Case Growth Graph*.

49 *See California Trade Secrets Litigation Supplants Noncompete Litigation*, available at https://www.faircompetitionlaw.com/2017/06/25/california-trade-secrets-litigation-supplants-noncompete-litigation/.

50 It bears noting that trade secret litigation is far more involved, more costly, longer lived, and less predictable than noncompete litigation. *See generally* Christina L. Wu, NONCOMPETE AGREEMENTS IN CALIFORNIA: SHOULD CALIFORNIA COURTS UPHOLD CHOICE OF LAW PROVISIONS SPECIFYING ANOTHER STATE'S LAW?, 51 UCLA L. Rev. 593, 610-11 (2003) ("Noncompete agreements can also reduce the cost of trade secret litigation. . . . Instead of claiming misappropriation of trade secrets, an employer can simply bring a contract action for breach of the covenant not to compete, which would be less costly and easier to prove. Trade secret misappropriation cases can involve extensive discovery. They also consume the time of other employees, who would otherwise be performing more productive tasks. In contrast, proving a violation of a noncompete agreement would not involve extensive discovery or exhaust other employees' time." (footnotes omitted)).

Misconception: Noncompetes Cannot Be Challenged in Court

Some people believe that noncompetition agreements typically use arbitration provisions to bar employees from challenging their contracts in court. This is not true. Although they are common in some industries (financial services and healthcare industries, for example), we are unaware of any studies or even anecdotal evidence suggesting that arbitration provisions are regularly used to move noncompete disputes into arbitration. Based on our collective experience, noncompetes do not typically include arbitration provisions outside of certain limited industries. Further, even when arbitration provisions are used, they usually allow for early judicial intervention to allow a judge to determine whether or not the employee may in the near term be prevented from beginning work at a new employer.

Misconception: Massachusetts Bans Noncompetes Or Requires Garden Leave

In the wake of extensive media coverage of the Massachusetts noncompete legislative process, which led other states to reevaluate their own noncompete laws, there has been substantial confusion about what the new Massachusetts law requires. Many seem to think that Massachusetts banned noncompetes. It did not. It considered and rejected a ban; the law permits noncompetes when they comply with the statutory requirements.[51]

Another popular misconception is that Massachusetts now requires employees to be paid "garden leave," *i.e.*, payment of a portion of their salary during the term of the restriction. It does not. Though the statute *permits* the use of a "garden leave clause," such payments are not required. Parties are permitted to support the noncompete with "other mutually-agreed upon consideration."[52]

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[51] *See* M.G.L. c. 149, § 24L.

[52] *See* M.G.L. c. 149, § 24L(b)(vii); *see also* Beck & Hahn, *Consideration Happens, But Not During Garden Leave*, Massachusetts Lawyers Weekly (Jan. 2, 2020), available at https://masslawyersweekly.com/2020/01/02/consideration-happens-but-not-during-garden-leave/. (A free version is available at https://faircompetitionlaw.com/2020/01/06/massachusetts-noncompete-consideration-happens-but-not-during-garden-leave/.)

Misconception: Noncompetes Protect Only Companies, Not Employees

Finally, some commentators have claimed that noncompetes are an inherently employer-versus-employee issue. While there is some truth in that observation, it is an over-simplification. To the extent that noncompetes protect a company, they also protect the company's remaining employees. In fact, it is often the employees that remain with the company who feel most strongly that they are adversely impacted by a departing employee's breach of their noncompete, and it is they who push to enforce the noncompete – to protect not just the company, but their income and potentially their job.[53]

4. REGULATORY EFFORTS ACROSS THE COUNTRY AND WHAT CAN BE LEARNED

Over just the past several years, no fewer than 37 states across the country have been engaged in the process of reevaluating their noncompete laws.[54] This year alone, there have been 66 bills filed in 25 states.[55]

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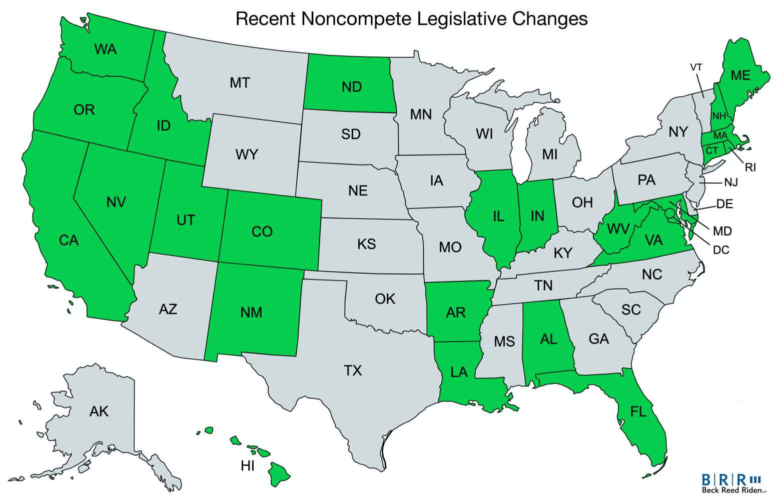
53 Proposed bans on noncompete agreements overlook the second- and third-order consequences on employees.

54 The surge in reexamination is likely the result of a confluence of many factors, including the following: Oregon changed its noncompete law in 2008, as the Great Recession was just beginning. Then, in 2009, Massachusetts began a nearly ten-year journey to update its noncompete laws, starting with the filing of two separate, unrelated bills by Representative Lori Ehrlich and now Senator (then Representative) Will Brownsberger in response to matters brought to their attention. One of those bills was a proposed ban of noncompetes, while the other would have modified the law. The proposed ban in particular caught the attention of the media (though it was not the bill that ultimately passed ten years later). Shortly after Massachusetts was in the news for its proposed ban, Georgia held a state-wide referendum to modify its noncompete laws – making noncompetes *more* enforceable, which also caught the attention of the media. But, perhaps most influential, starting around 2014, noncompetes began getting substantial media attention following the firestorm created when a sandwich chain was revealed to have been requiring its sandwich makers to sign noncompetes. Coupled with the media attention, academic commentary on the potential impacts of noncompetes was accelerating around the same time.

55 The 25 states are Arkansas, Connecticut, Georgia, Illinois, Iowa, Kentucky, Louisiana, Massachusetts, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Utah, Vermont, Virginia, and West Virginia. *See map of 2021 legislation*, available at https://faircompetitionlaw.com/2021/06/08/new-map-of-recent-changes-to-state-noncompete-laws/.

In total, as reflected on the map (below right), over the past several years, 24 states (plus Washington, D.C.) have enacted legislation modifying their noncompete laws,[56] four (including D.C.) in just this year alone. While many of the states have considered noncompete bans like those in California, North Dakota, and Oklahoma, none has yet been adopted.[57] Rather, each state has evaluated the diverse needs of its economy, workforce, and industries, and reached a balance of interests that it determined appropriate for its population – some strengthening the enforceability of noncompetes, others making it harder to enforce them. Hawaii, for example, in 2015, banned the use of noncompetes for workers in the technology field. No other state has similarly sought to limit the use of noncompetes based on industry sector.



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56 The states are Alabama, Arkansas, California, Colorado, Connecticut, Florida, Hawaii, Idaho, Illinois, Indiana, Louisiana, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Mexico, North Dakota, Oregon, Rhode Island, Utah, Virginia, Washington, and West Virginia. *See The Changing Landscape of Trade Secrets Laws and Noncompete Laws Around the Country*, available at https://www.faircompetitionlaw.com/changing-landscape-of-trade-secrets-laws-and-noncompete-laws/. Interestingly, California added a requirement to its general labor code that has the effect of mandating that most noncompete disputes with California employee must be litigated in California. *See* Cal. Lab. Code § 925. In addition, North Dakota, which bans employee noncompetes, made it easier to enforce them in the context of a sale of a business.

57 The last time a permanent ban on employee noncompetes was adopted was in 1890 (in Oklahoma). Interestingly, Michigan banned noncompetes in 1905, but then repealed the ban in 1985. *See* Matt Marx, Deborah Strumsky & Lee Fleming, MOBILITY, SKILLS, AND THE MICHIGAN NONCOMPETE EXPERIMENT, 55(6) Management Science 875-889, at 6 (April 15, 2009) (discussing Michigan's 1905 statute 445.761 banning noncompetes and the Michigan Antitrust Reform Act of 1985, which "repealed MCL 445 and with it the prohibition on enforcing noncompete agreements"), available at https://www.researchgate.net/publication/220534518_Mobility_Skills_and_the_Michigan_Non-Compete_Experiment. Further, as noted above, although Washington, D.C. has come close, even its ban has exemptions. *See supra* at p. 6 n.10.

Of the 24 states that have modified their noncompete laws, ten have banned their use for low-wage and blue-collar workers (with varying methods of determining who qualifies for the exemption).[58] The standards in each state are summarized in the following chart[59]:

State	Wage Threshold
Illinois	$75,000
Maine	400% of the federal poverty level
Maryland	$15 per hour or $31,200 annually
Massachusetts	Nonexempt under the Fair Labor Standards Act
Nevada	Paid solely on an hourly wage basis, exclusive of tips or gratuities
New Hampshire	$14.50 per hour (for non-tip-based employees)
Oregon	$100,533
Rhode Island	250% of the federal poverty level for individuals or nonexempt under the Fair Labor Standards Act
Virginia	Average weekly wage in Virginia
Washington	$100,000 for employees and $250,000 for independent contractors

Similarly, through recent legislative changes, states have been addressing the concern that employees report to a new job and learn, for the first time, that they will be subject to a noncompete. Specifically, states are imposing notice requirements, with wildly varied approaches, summarized on the following chart:

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58 Those states are Illinois (in 2016 and again – pending the governor's signature – in 2021 following a unanimous vote in the house and senate), Maine (in 2019), Maryland (in 2019), Massachusetts (in 2018), Nevada (in 2021), New Hampshire (in 2019), Oregon (which, in 2021, increased the wage threshold thereby exempting more employees), Rhode Island (in 2020), Virginia (in 2020), and Washington (in 2020). *See* "'*Low-wage' employees are now exempt from 10 noncompete laws. Who are these employees and where are they exempt?*," available at https://faircompetitionlaw.com/2021/06/19/low-wage-employees-are-now-exempt-from-10-noncompete-laws-who-are-these-employees-and-where-are-they-exempt/. Instructively, Oregon has had such a ban since 2008, though it updated its criteria in 2021, effective January 1, 2022.

59 Note that the specific dollar values may be subject to increase for inflation or other reasons.

State / District	Substance of Notice	Timing of Notice
D.C.	Employees must be provided with the following notice: No employer operating in the District of Columbia may request or require any employee working in the District of Columbia to agree to a non-compete policy or agreement, in accordance with the Ban on Non-Compete Agreements Amendment Act of 2020.	The language must be provided in three timeframes: • within 90 days of the "applicability date" of the Act (date TBD); • within 7 days of an individual becoming an employee; and • within 14 days of a written request from an employee for the language.
Illinois	Employer must advise the employee in writing to consult with an attorney.	Before entering into the agreement.
	Employer must provide a copy of the noncompete.	For new employees, at least 14 calendar days before commencement of employment. For existing employees, at least 14 calendar days to review.
	Timing of notice is expressly waivable.	
Maine	Employer must provide notice of the noncompete.	By the time of the offer.
	Employer must provide the agreement.	Three business days before the deadline to sign.
Massachusetts	Employer must provide the noncompete, including that the employee has the right to consult with counsel, to the employee.	For new employees, the earlier of 10 business days before commencement of work or prior to a formal offer. For existing employees, at least 10 business days before the agreement becomes effective.
New Hampshire	Employer must provide the noncompete.	Prior to acceptance of the offer of employment.
Oregon	The employer must provide a copy of the noncompete with an offer letter that states that employment will be conditioned on the employee's signing the noncompete.	At least two weeks before the associate's first day of employment.
	Signed copy of the noncompete.	Within 30 days after termination.
Virginia	Employer must post a copy of Virginia code § 40.1-28.7:7 (Covenants not to compete prohibited as to low-wage employees; civil penalty) or a summary approved by the Department in the location it posts other required notices.	At all times.
Washington	Employer must disclose the terms of the covenant in writing to the prospective employee. If the agreement will become enforceable only at a later date as a consequence of changes in the employee's compensation, the employer must disclose that the agreement may be enforceable against the employee in the future.	Before acceptance of the offer or before the agreement becomes effective (whichever applies).

Based on a well-regarded 2019 study by Evan Starr, J.J. Prescott, and Norman Bishara (discussed below) finding that employees who "learn of their noncompete before they accept their job offer . . . have 9.7% *higher* earnings . . . relative to those employees without a non-compete," these changes may offset many of the purported negative wage effects.[60]

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[60] *See Noncompete Agreements in the U.S. Labor Force* (Oct. 12, 2020) (emphasis added), available at

5. Recommendations For A Fair Approach

Taking a Step Back:
Is Federal Regulation Needed?

In announcing his "Executive Order on Promoting Competition in the American Economy,"[61] President Biden expressed a concern that noncompetes are used "for ordinary people . . . for one reason: to keep wages low. Period."[62] Whether or not this is demonstrably true, as part of the extensive state legislative activity noted above, a number of states have begun requiring advance notice of a noncompete, which, according to the results of the study mentioned just above,[63] will (among other things) directly address President Biden's concern about the potential adverse impact of noncompetes on wages – as well as address the general unfairness issues associated with showing up to work on the first day to only then learn that a noncompete will be required.

Further, as noted above, ten states have already banned noncompetes for low-wage and blue-collar workers, and more are in the works.[64] Accordingly, that part of President Biden's

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https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714; *see also The Chilling Effect of Non-Compete Agreements*, by Matt Marx and Ryan Nunn (May 20, 2018) ("If it were the case that workers made fully informed decisions about signing a non-compete and could negotiate higher compensation in exchange for doing so, these agreements could be valuable for both workers and firms.") (emphasis added), available at https://econofact.org/the-chilling-effect-of-non-compete-agreements. To the extent that the positive impact of advance notice on wages tends to diminish in states with greater relative enforceability of noncompetes, the additional recommendations below should assist in preserving the wage premium associated with advance notice.

61 Available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/.

62 While that (and other improper objectives) may sometimes be the goal, addressing that abuse can be accomplished with regulation targeted specifically to that issue, as opposed to a more blunt ban of noncompetes, which are typically used for proper, legitimate purposes, including (as President Biden has identified) protecting trade secrets.

63 *Noncompetes in the U.S. Labor Force*, by Evan Starr, J.J. Prescott, and Norman Bishara (Oct. 12, 2020), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714.

64 *See The Changing Landscape of Trade Secrets Laws and Noncompete Laws Around the Country*, available at https://www.faircompetitionlaw.com/changing-landscape-of-trade-secrets-laws-and-noncompete-laws/.

concern is being addressed at the state level with a more particularized and focused approach.[65]

President Biden has also, more generally, raised a concern about the impact that noncompetes have on employee mobility. That issue also has been front and center in the legislative activity occurring at local levels. And the states – the laboratories of democracy – have tailored their noncompete laws to serve the distinct needs of their citizens, industries, and economies, a tailoring that remains the subject of ongoing reevaluation and refinement. Indeed, the wide variety of new state laws means that we will be able to measure impacts reliably and produce learning on the issue that is informed by empirical facts, not assumptions, speculation, or rhetoric. We should consider very skeptically any proposal to cut short this experimentation by imposing a singular, preemptive federal standard.

Abuses Should Not Be Allowed to Mis-define The Problem

As the need for legislation is evaluated, we should recognize that it is not the existence of noncompete agreements that creates the problem – it is the abuses of them.[66] As explained above, contrary to much of the colloquial commentary, noncompete agreements cannot (lawfully) be used to prevent an employee from broadly using his or her general skills and knowledge (or otherwise working). Yet, we often see the abuses captured in the headlines, and it can drive an overreaction that could potentially eliminate an important tool for some businesses to maintain control of critical information assets.

Abuses consist mainly of the use of noncompetes for low-wage workers, the lack of advance notice given to employees that they will be required to sign a noncompete, and the use (and aggressive enforcement) of overly-restrictive agreements. Each can – and should – be reined in (as described below) and, as noted above, these issues are under active consideration among state legislatures. Further, these reforms are consistent with the general advice the legal professionals who have signed this letter have provided.

Focusing on the abuses is supported by the academic research, which raises significant concerns about the impacts that broad-based legislative activity may have if not carefully

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65 It bears noting that, though less satisfactory, courts will frequently refuse to enforce noncompetes against low-wage workers, even without a statutory ban. Of course, as a practical matter, the fact that a determination would require the expense of litigation offers little solace to the low-wage workers subject to the restrictions.

66 The nature of the "problem" addressed here is the impact on workers, companies, industries, and the economy, not a philosophical antipathy toward noncompetes.

considered and tailored. In that regard, while some studies suggest that noncompetes may have adverse effects in certain contexts, other studies come to a different conclusion, highlighting the positive effects of noncompetes[67]:

- Employees "who learn of their noncompete before they accept their job offer . . . have 9.7% . . . *higher* earnings, are 4.3 percentage points more likely to have information shared with them (a 7.8% increase relative to the sample average), are 5.5 percentage points more likely to have received training in the last year (an 11% increase), and are 4.5 percentage points more likely to be satisfied in their job (a 6.6% increase) relative to those employees without a non-compete."[68]

- Employees subject to noncompetes "tended to be more productive, take fewer risks and align their behaviors with the goals of their employers" (at least in the mutual fund industry).[69]

- "[R]elaxing the enforceability of non-competes [meaning making noncompetes less enforceable] actually makes firms less willing to fire

[67] We recognized that these studies, like other studies, may be impacted by confounding variables, but we reference them to illustrate that not all examination of noncompete usage reveals negative outcomes for employees.

[68] *Noncompete Agreements in the U.S. Labor Force*, by Evan Starr, J.J. Prescott, and Norman Bishara (Oct. 12, 2020) (emphasis added), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714; *see also The Chilling Effect of Non-Compete Agreements*, by Matt Marx and Ryan Nunn (May 20, 2018) ("If it were the case that workers made fully informed decisions about signing a non-compete and could negotiate higher compensation in exchange for doing so, these agreements could be valuable for both workers and firms.") (emphasis added), available at https://econofact.org/the-chilling-effect-of-non-compete-agreements.

[69] *Study Finds Noncompete Clauses Affect How Employees Behave, To Benefit Of Employers*, available at https://news.ku.edu/2019/03/25/study-finds-non-compete-clauses-affect-how-employees-behave-benefit-employers; *see also* Gjergji Cici, Mario Hendriock, & Alexander Kempf, THE IMPACT OF LABOR MOBILITY RESTRICTIONS ON MANAGERIAL ACTIONS: EVIDENCE FROM THE MUTUAL FUND INDUSTRY (University of Cologne) at 2, 5 (March 28, 2018) ("Our first set of results shows unambiguously that increased enforceability of NCCs [*i.e.*, noncompetes] leads to better fund performance. . . . Our empirical results show that fund managers increase effort even more in large fund families after NCC enforceability becomes stricter."), available at https://www.econstor.eu/bitstream/10419/177385/1/1017934355.pdf.

their workers and leads to higher rates of misconduct among financial advisors. So this could actually be potentially harmful for consumers. Consumers are also charged higher fees."[70]

- Noncompetes appear to systematically increase earnings for CEOs and executives and make them more accountable.[71]

- Noncompetes appear to increase earnings for physicians.[72]

- Firm-sponsored training is more common in states with stronger noncompete enforcement.[73]

- States that permit stronger enforcement of noncompete agreements tend to have fewer – but better (higher-quality ideas and more likely to survive) – startups.[74]

Accordingly, given the state of the research, the most significant conclusion that can be drawn is that the law surrounding noncompete agreements is not inherently in need of change beyond what is happening at the state level, and certainly not wholesale preemption by federal standards.

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70 *See* FTC Workshop Tr. p 148 (comments of Professor Kurt Lavetti, The Ohio State University).

71 *See* FTC Workshop Tr. p 175-79 (comments of Professor Ryan Williams, University of Arizona).

72 *See* FTC Workshop Tr. p 147-51 (comments of Professor Kurt Lavetti).

73 *Training the Enemy? Firm-Sponsored Training and the Enforcement of Covenants Not to Compete*, by Evan Starr (January 25, 2015), available at https://www.faircompetitionlaw.com/wp-content/uploads/2015/02/training-the-enemy-firm-sponsored-training-and-the-enforcement-of-covenants-not-to-compete-starr.pdf.

74 *Enforcing Covenants Not to Compete: The Life-Cycle Impact on New Firms*, by Evan Starr, Natarajan Balasubramanian, and Mariko Sakakibara (June 15, 2014), available at https://www.faircompetitionlaw.com/wp-content/uploads/2015/02/more-noncompete-enforcement-equals-fewer-but-better-startups-starr_nv.pdf. Accordingly, the argument made by some that noncompetes make it harder to start, grow, and recruit for start-ups and lower entrepreneurship rates, while potentially true, misses the point of this research.

Unintended Consequences

Before considering the possible areas for regulation, it is important to understand the other, less-obvious, potential unintended consequences of barring the use of noncompetes, including, significantly increasing the likelihood that trade secrets will be unlawfully taken to a competitor and increasing the volume of more-costly trade secret litigation.[75]

Small companies would likely suffer the most from a ban, as they often have few or only one trade secret that forms the basis of their value but cannot afford costly litigation when their trusted employees leave for competitors or are lured away by larger companies that can easily misuse the trade secret(s) in ways that may not be detectable. During the Massachusetts noncompete/trade secret law legislative process, many small companies emphasized this and similar concerns. In particular, it was noted that some small business owners have invested their entire life savings in the company, and if they cannot prevent a former employee from working (for a limited period) in a competitive role that threatens the existence of the company, their savings, their livelihood, and the remaining employees' jobs will all be lost.

There are also the unintended consequences of reducing employee opportunities and training. Small businesses, which are frequently formed with the personal life savings of the owner, are unlikely to provide new opportunities and detailed training if their business will be left at risk. That could curtail investment and expansion of what has been the dominant engine of U.S. job growth over the last decade,[76] or it could constrain recruitment and retention efforts to family members or others within the social network connections of such employees.[77]

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[75] *See California Trade Secrets Litigation Supplants Noncompete Litigation*, https://www.faircompetitionlaw.com/2017/06/25/california-trade-secrets-litigation-supplants-noncompete-litigation/.

[76] According to the Small Business Administration, small companies create millions of jobs annually and accounted for about 63 percent of new private sector jobs in the United States from 2010 to 2019. *See* Congressional Research Service, SMALL BUSINESS ADMINISTRATION AND JOB CREATION, at 5 (UPDATED JUNE 23, 2021), available at https://fas.org/sgp/crs/misc/R41523.pdf (citing https://cdn.advocacy.sba.gov/wp-content/uploads/2020/12/08111415/December-Economic-Bulletin.pdf).

[77] This not only limits employee opportunities generally, but could in fact have a greater deleterious effect on minority applicants unable to provide contractual assurances to new employers with whom they have no previous connections.

Additional Research Is Needed

While a number of helpful studies have been conducted,[78] this area of research is still in many respects nascent. Indeed, most of the academics at the FTC's 2020 workshop on noncompetes were the first to point out that the existing research suffers from certain inherent difficulties (including that it can be hard to isolate direct causal connections to noncompetes), reflects areas of (seeming) inconsistencies, and leaves open many areas in need of additional study. Further, the research has, in large measure, focused primarily on the perceived problems with noncompetes, rather than accounting for their benefits. The following are just some examples:

- Although some research suggests that noncompetes appear to reduce wages for low-wage workers, as Professor Lavetti observed at the workshop, this may be an over-simplification.[79] (This includes, in addition to the issues identified by Professor Lavetti at the workshop, unanswered questions about a causal connection between noncompetes and the purported effects suggested by some of the research.)

- Although some have routinely asserted that noncompetes (as well as no-poach agreements) are being used with more frequency than in the past, there is no empirical proof of these claims, as there are no longitudinal studies looking at changes over time.[80] But because noncompetes appear (anecdotally and as emphasized in the media) to be more widely used than in the past,[81] many have seized on the perception that employers are

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78 Because our discussion of the research is intended to simply point out that many unknowns remain before we can fully understand the circumstances in which noncompetes have positive versus adverse effects, we do not discuss all of the research, including recent studies regarding spillover effects and the bundling of restrictive covenants suggesting that, in some contexts, more vigorous enforcement of noncompetes will tend to reduce wages, mobility, and entrepreneurship.

79 FTC Workshop Tr., p. 152.

80 As noted above (pages 14-15, 17-18 & n.45) the opposite is quite possibly true for noncompetes, assuming one can draw such an inference from the fact that the number of Westlaw-reported judicial decisions concerning noncompetes (which can serve as a proxy for the use and enforcement of noncompetes) has remained roughly static during the last decade.

81 *See* Office of Economic Policy, U.S. Department of the Treasury, "Non-compete Contracts: Economic Effects and Policy Implications" (March 2016), available at

increasingly using noncompetes for lower level employees, and have correlated that with slow wage growth since the Great Recession, blaming the latter on the former. However, as explained above, no one knows if either of those assertions is true.[82] In sum, we do not know how noncompete use has changed over the years, and we certainly cannot pronounce noncompetes to be the cause of slow wage growth.

- The research has yet to explain why there are roughly as many noncompetes used (by percentage) in states that do not enforce noncompetes (for these purposes, California) as in states that do, or what effect that has for the research or as a practical matter.[83]

- Most of the studies that ask employees whether they are bound by a noncompete have no meaningful way to know whether the employee actually understands the difference between a noncompete, a nonsolicitation agreement, or even a nondisclosure agreement.[84] Many employees do not know the difference.[85]

In light of the above, any legislation or rule-making based on the current research needs to be carefully considered to avoid potentially creating extraordinarily-adverse consequences.[86]

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https://www.treasury.gov/resource-center/economic-policy/Documents/UST Non-competes Report.pdf.

82 *See supra* at pp. 14-15.

83 FTC Workshop Tr., pp. 129-30, 169-70.

84 Professor Starr has indicated that, in recent studies, he has focused on that very issue and has been making an effort to ensure that his research asks the right questions to make sure that the people surveyed understand the difference.

85 This was abundantly clear during the lengthy legislative process in Massachusetts, where employers would explain their use of noncompetes, only to learn that they were talking about nonsolicitation agreements.

86 As noted above, one study found that "relaxing the enforceability of non-competes [meaning making noncompetes less enforceable] actually . . . leads to higher rates of misconduct among financial advisors. So this could actually be potentially harmful for consumers. Consumers are also charged higher fees." FTC Workshop Tr., p. 148.

Suggested Regulations

To the extent that the FTC has authority to promulgate a rule[87] and chooses to exercise it, we urge the Commission to be judicious and tailor any regulations to the specific abuses and recognize that reliance on early-stage empirical research, conflicting evidence, and faulty assumptions[88] to change noncompete laws is, in the end, not only unnecessary, but potentially counterproductive and contrary to the U.S. government's policy of protecting trade secrets, as expressed through the Defend Trade Secrets Act. We recognize that a ban might be seen as politically expedient, but this is a complicated issue, and complicated issues call for carefully considered solutions.

Given all of the above, if the Commission determines that noncompete contracts are an appropriate subject of federal regulation, we recommend the following two broad categories of changes:

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[87] The signatories to this letter offer no opinion about whether the Commission has or does not have such power.

[88] In particular, the assumption that the rise of Silicon Valley and the (somewhat exaggerated) fall of Massachusetts' Route 128 is a reflection of the different noncompete enforcement regimes has taken on an almost mythical quality that is not supported by the record. It is not what AnnaLee Saxenian (who first compared the two regions) said, nor is it what Ronald Gilson (who built on that work and specifically looked at the different treatment in noncompetes) said either. What they discussed was much more nuanced. In any event, Professor Gilson added an important caveat: "I think caution is in order in assessing the policy implications of Silicon Valley's history. . . . [E]ach state's particular industrial population may dictate a different balance." Ronald J. Gilson, THE LEGAL INFRASTRUCTURE OF HIGH TECHNOLOGY INDUSTRIAL DISTRICTS: SILICON VALLEY, ROUTE 128, AND COVENANTS NOT TO COMPETE, 74 N.Y.U. L. Rev 575, 627-28 (June 1999), available at https://scholarship.law.columbia.edu/cgi/viewcontent.cgi?article=1950&context=faculty_scholarship. Thus, while indiscriminate acceptance of the Silicon Valley/Massachusetts myth is certainly harmless in general, using it to justify noncompete regulation is extremely misguided. For more discussion, see *Misconceptions In The Debate About Noncompetes*, Law360, July 8, 2019 (reprinted on *Fair Competition Law* as "*Correlation Does Not Imply Causation: The False Comparison of Silicon Valley and Boston's Route 128*," available without subscription at https://www.faircompetitionlaw.com/2019/07/09/correlation-does-not-imply-causation-the-false-comparison-of-silicon-valley-and-bostons-route-128/); Jonathan Barnett & Ted M. Sichelman, THE CASE FOR NONCOMPETES, 86 U. Chicago L. Rev. 953, 978-1009 (July 22, 2020), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3516397.

A. Fairness and Transparency

There are several changes that would help to balance the playing field and ensure fairness.

- A **ban** on noncompetes for **low-wage workers** (defined as employees who are not exempt under the Fair Labor Standards Act). There is rarely a need for such workers to be bound by noncompetes, and even when the need might exist in the abstract, the potential detriment to the worker will typically outweigh it.

- A **requirement** that employers provide **advance notice** that a noncompete will be required. As Professor Marx has observed, "[i]f it were the case that workers made fully informed decisions about signing a non-compete and could negotiate higher compensation in exchange for doing so, *these agreements could be valuable for both workers and firms*."[89] For example, it would be best practice to include a noncompete with any formal offer of employment.

- A **ban** on noncompetes where the overriding interests of third parties should be given priority.

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[89] *The Chilling Effect of Non-Compete Agreements*, by Matt Marx and Ryan Nunn (May 20, 2018) (emphasis added), available at https://econofact.org/the-chilling-effect-of-non-compete-agreements. Professor Marx continued with his observation, "However, the actual conditions under which non-competes are used provides reason to doubt that non-competes are indeed mutually beneficial in all or most cases." *Id.* This observation is consistent with the findings in *Noncompete Agreements in the U.S. Labor Force*, by Evan Starr, J.J. Prescott, and Norman Bishara (Oct. 12, 2020) (identifying various positive effects of noncompetes when advance notice is provided, including higher earnings, more access to information, more training, and more job satisfaction), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2625714. Instructively, according to that study, more than half (52 percent) of people presented with a noncompete chose to "forgo[] the opportunity to negotiate [because] the terms were reasonable," while 41 percent assumed they were not negotiable, *id*. at p. 9, the latter of which could be addressed with advance notice. Indeed, 55 percent of people presented with a noncompete before they accepted the offer thought it was reasonable and 48 percent thought they could negotiate it. *Id*. Accordingly, the recommendations in this letter are intended to address these issues holistically.

B. Limitations on Use to Only What Is Necessary

Recognizing that noncompetes are an important tool in the protection of trade secrets (and other business interests recognized by many states), the following changes would allow the agreements to be used only where needed and only in a non-overreaching way.

- Mandate the so-called "**purple pencil**" rule to address overly broad noncompetes. States take one of three general approaches to overly broad noncompetes: *reformation* (sometimes called "*judicial modification*," in which the court essentially rewrites the language to conform the agreement to a permissible scope); *blue pencil* (in which the court simply crosses out the offending language, leaving the remaining language enforceable or not); and *red pencil* (also referred to as the "all or nothing" approach, which, as its name implies, requires a court to void any restriction that is overly broad, leaving nothing to enforce). Although in its new law, Massachusetts retained the reformation approach (which it and the majority of states have historically used), an equitable, middle-ground approach (which one Massachusetts state senator dubbed the "purple pencil") is a hybrid of the reformation and red pencil approaches, requiring courts to strike the noncompete in its entirety unless the language reflects a clear good-faith intent to draft a reasonable restriction, in which case the court may reform it.

- Provide for "**springing**" (or "**time-out**") noncompetes. To encourage employers to limit their reliance on noncompetes, they must have a clear and viable remedy when an employee violates other (less-restrictive) obligations (such as a nondisclosure and nonsolicitation obligations), misappropriates the employer's trade secrets, or breaches their fiduciary duties to the employer. In Massachusetts and Rhode Island (copying Massachusetts), the new noncompete laws expressly allow courts to prohibit the employee from engaging in certain work when, based on the employee's breach of certain enforceable obligations, the court is convinced that the individual cannot be trusted to perform the work without continuing to violate their other obligations. We colloquially refer to these as "springing noncompetes" (or sometimes "time out" noncompetes) because they are not required of the employee in the first instance, but are only activated if the employee engages in certain unlawful behavior.

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Again, the signatories below thank you for your consideration of this submission and for taking on such an important and fraught issue. We are prepared to appear and testify live before the Commission or the Executive Office of the President, should either so desire. We also offer any other assistance that the Commission or Executive Office of the President may find helpful, including drafting language for a rule, policy, or guidance.

Respectfully submitted,

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Attachments

The views and opinions expressed in this letter are those of the signatories in their individual capacity and do not necessarily reflect the views or opinions of their firms.

Attachment A

INDIVIDUAL BIOGRAPHIES

Russell Beck
Beck Reed Riden LLP
Boston, Massachusetts
Link to full bio here: https://www.beckreedriden.com/russell-beck/

Russell Beck is a business, trade secrets, and employee mobility litigator, nationally recognized for his trade secrets and noncompete experience. He is President of the Boston Bar Foundation and, for the past decade, has also taught the course, *Trade Secrets and Restrictive Covenants*, at Boston University School of Law (a course he developed for the school). He was the lead advisor and drafter of the new Massachusetts noncompete law, and revised the Massachusetts Uniform Trade Secrets Act. In 2016, he was invited to the White House to participate in the working group discussions that led to the development by the White House of a Call to Action on noncompetes. He authored the books, *Trade Secrets Law for the Massachusetts Practitioner* (1st ed. MCLE, Inc. 2019) (covering trade secrets nationally, with a focus on Massachusetts law) and *Negotiating, Drafting, and Enforcing Noncompetition Agreements and Related Restrictive Covenants* (6th ed., MCLE, Inc. 2021) (covering Massachusetts noncompete law). In addition, he is a frequent speaker, panelist, and author, and created the widely used 50 State Noncompete Survey (*Employee Noncompetes, A State-By-State Survey*) and 50 State Trade Secrets Comparison Chart (*Trade Secrets Acts Compared to the UTSA*). Russell is a member of the Steering Committee for the Sedona Conference's Working Group 12 (Trade Secrets), assisted the Uniform Law Commission's Covenants Not to Compete Drafting Committee, and has served as chair of the American Intellectual Property Law Association's Trade Secrets Committee. He also monitors changes to noncompete and trade secrets laws around the country, as detailed on the blog, *FairCompetitionLaw.com*. Russell has appeared on National Public Radio, PBS, the BBC World News Service, and been relied on as an expert on trade secrets and noncompetes by *The New York Times*, *The Wall Street Journal*, the White House, the Treasury Department, *Le Monde*, and many others, including in myriad studies and scholarly publications.

Erika Hahn
Beck Reed Riden LLP
Boston, Massachusetts
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Erika Hahn is a paralegal at Beck Reed Riden LLP. She provides extensive support on trade secret and noncompete matters nationally, and has been a substantial contributor and editor on multiple books and articles on noncompete law and trade secret law, as well as many other publications. Erika also tracks state and federal legislative noncompete and trade secret law developments around the country.

Paula Astl
Beck Reed Riden LLP
Boston, Massachusetts
Link to full bio here: https://beckreedriden.com/paula-astl/

Paula Astl has more than 20 years of experience working as a litigation paralegal in a number of areas of law including trade secrets, restrictive covenants, employment law, patent litigation, complex business securities litigation, and government enforcement. Her particular areas of expertise include working with clients on data collection and e-discovery, discovery and deposition preparation, assisting with motion practice, and preparing for, as well as assisting through, the trial and post-trial phases of cases.

Clifford Atlas
Jackson Lewis, P.C.
New York, New York
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Clifford Atlas is a principal in the New York City, New York, office of Jackson Lewis P.C. He is the co-leader of the Restrictive Covenants, Trade Secrets and Unfair Competition practice group. Cliff works extensively with clients in developing and drafting employment contracts and restrictive covenant agreements, and developing programs to best protect clients' confidential business information. He has significant experience in prosecuting as well as defending actions involving breach of noncompetition and nonsolicitation agreements, employee raiding, misappropriation of confidential information, tortious interference with contract, unfair competition, and related business claims. Cliff also has assisted clients in employment issues arising from corporate transactions. Additionally, Cliff handles all types of employment discrimination, harassment, disability, wrongful discharge, and related employment tort, contract, wage-hour and employee benefits claims. He has tried cases in state and federal courts, and before administrative agencies. Cliff has argued numerous appeals to the United States Court of Appeals for the Second Circuit. Cliff joined Jackson Lewis in 1985.

Raymond P. Ausrotas
Arrowood LLP
Boston, Massachusetts
Link to full bio here: https://arrowoodllp.com/raymond-p-ausrotas/

Raymond P. Ausrotas is a Founding Partner of Arrowood LLP in Boston, Massachusetts. Ray is a graduate of Brown University and the George Washington University Law School. His practice is primarily focused on commercial litigation and business disputes, including in the areas of misappropriation of confidential information & trade secrets, and breach of fiduciary duty involving corporate officers and directors. Ray has twice been trial counsel on "Top Ten" verdicts awarded for the year in Massachusetts, including as first-chair on a favorable $16 Million verdict in 2019, which was the only business dispute among the Top 10 that year. He is the lead author of both Massachusetts Civil Trial Practice and Massachusetts Civil Pretrial Practice, which are published and regularly updated by LexisNexis. He has presented on statewide CLE panels, and written several articles on discovery and other topics (including noncompete law). Since 2014, Ray has been recognized annually as a "Top 100" SuperLawyer for both New England and Massachusetts in the area of Business Litigation; since 2016 he has been recognized nationally by Best Lawyers in the categories of Commercial Litigation and Litigation / Regulatory Enforcement (and "Lawyer of the Year" for Boston in the latter category in 2021). In 2015, he was inducted as a Fellow of the Litigation Counsel of America, a trial lawyer honorary society composed of less than one-half of one percent of American lawyers. Ray has also earned an AV®Preeminent™ Peer Review Rating from Martindale-Hubbell® in the categories of Litigation and Business Law."

Jennifer Baldocchi
Paul Hastings LLP
Los Angeles, California
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Jennifer Baldocchi is Chair of the firm's Employee Mobility and Trade Secrets practice and Vice Chair of the Employment Law department. Her practice focuses on employee mobility and intellectual property, including trade secrets, covenants not to compete, unfair competition, and fiduciary duties.

David J. Carr
Ice Miller LLP
Indianapolis, Indiana
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David J. Carr is a partner in the Labor/Employment section of Ice Miller LLP, focusing his practice in the areas of employment law advice, employment discrimination and harassment, and employment contracts involving trade secrets, and covenants against competition. Mr. Carr is a veteran labor negotiator and has successfully negotiated labor agreements on behalf of employers. He has handled labor arbitrations, union avoidance and other collective bargaining matters, wrongful discharge lawsuits, as well as other nationwide employment-related litigation and collective/class actions. Mr. Carr is a contributing author for four employment law related ABA treatises, including Employment Covenants Not Compete: A State by State Survey (13th Edition, Bloomberg Law, 2021), and is a member of College of Labor & Employment Lawyers, one of less than 20 in Indiana, as well as a recipient of the Best Lawyers in America, and Super Lawyer designations. He holds a J.D. from Georgetown University Law Center, and B.A. from DePauw University.

Jillian Carson
Beck Reed Riden LLP
Boston, Massachusetts
Link to full bio here: https://beckreedriden.com/jillian-carson/

Jillian Carson is an attorney in Beck Reed Riden LLP's business litigation practice. Jillian focuses on trade secret and restrictive covenant law. She has represented corporate and individual clients on matters concerning, among other things, the enforceability of noncompetition, nondisclosure, and nonsolicitation agreements, trade secret misappropriation, unfair competition, breach of fiduciary duties, and interference with contract. She has represented clients in both state and federal court as well as mediations. In addition to her litigation practice, Jillian supports Beck Reed Riden LLP's employment law practice in matters involving employee mobility, risk management, and contract drafting. Jillian is also an active member of the Boston Bar Association. Jillian has been selected as a "2020 Massachusetts Rising Star" by Super Lawyers Magazine and graduated cum laude from New England Law Boston with numerous individual honors. She earned her MA from Columbia University and worked at the Institute for the Study of Human Rights at Columbia University before attending law school.

Michael Chinitz
Chinitz Law LLC
Needham, Massachusetts
Link to full bio here: https://chinitzlawllc.com/michael-chinitz/

Michael has been a practicing lawyer since 1988. Throughout his career, he has litigated and arbitrated cases involving noncompetition cases across many industries. He also regularly advises employees ranging from C-Suite executives to middle management on a broad range of issues concerning their "mobility," including issues concerning arising from noncompetition agreements.

Bret A. Cohen
Nelson Mullins
Boston, Massachusetts
Link to full bio here: https://www.nelsonmullins.com/people/bret-cohen#main

Bret A. Cohen is a partner in Nelson Mullins' Boston and New York office and serves as the chair of the firmwide Labor and Employment practice and co-chair of the firmwide Employee Mobility and Trade Secrets Practice. Bret counsels leading companies and executives across on negotiating and drafting non-compete, confidentiality, and other employment-related agreements. He has 28 years of experience litigating non-compete and trade secret matters in state and federal courts throughout the United States. Bret is recognized as a national leader in trade secrets and noncompete matters and has published extensively on these and related issues.

Jerry Cohen
Burns & Levinson
Boston, Massachusetts
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Jerry Cohen's law practice, teaching, writing/speaking and legislative testimony in several areas of intellectual property (IP) have a common theme of balancing interests based on transparency and truth. The balancing can occur as to scope and perfection of IP rights within just limits, enforcement with proportionality based on hard facts and permissible exploitation consistent with public interest. As applied to noncompetition covenants it is necessary to overcome ambiguity in defining valid employer and employee interests to be protected including proper definitions of fair and unfair competition and material injury to employers and employees tailored to circumstances of the parties. These have been and continue as the subjects of worthwhile professional and political engagement.

Patrick M. Curran, Jr.
Ogletree, Deakins, Nash, Smoak and Stewart, P.C.
Boston, Massachusetts
Link to full bio here: https://ogletree.com/people/patrick-m-curran-jr/

Mr. Curran is a shareholder in the Boston office of Ogletree, Deakins, Nash, Smoak & Stewart, P.C., where he practices labor and employment law. He routinely represents and counsels employers on issues relating to restrictive covenants, including noncompetition agreements. Mr. Curran has also served as a lecturer at Boston University Law School, and as a law clerk to the Honorable Peter J. Messitte in the U.S. District Court for the District of Maryland.

Jay M. Dade
Polsinelli
Kansas City, Missouri
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Jay M. Dade is an experienced labor and employment lawyer who counsels clients on noncompete agreement implementation and enforcement; day-to-day personnel management and union management issues, including alcohol and drug testing policy implementation and enforcement; federal and state wage-hour matters; discrimination claims arising under federal and state law; Family and Medical Leave Act matters; unfair labor practice charges, union organizing campaigns, representation elections, and secondary activity and arbitrations; and unemployment compensation and eligibility proceedings. Jay represents clients regarding restrictive covenant enforcement matters in multiple states and across multiple industry and professional areas (including financial services, health care, manufacturing and media). He represents employers before the EEOC, National Labor Relations Board, U.S. Department of Labor, Missouri State Board of Mediation, numerous state and local fair employment agencies, as well as federal and state courts nationwide. He is a Chapter Editor for The Developing Labor Law and is the national practice group leader for Polsinelli's Management-Labor Relations practice group.

Nicole Daly
Beck Reed Riden LLP
Boston, Massachusetts
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Nicole Corvini Daly is a partner at Beck Reed Riden LLP, a litigation and employment boutique in Boston. Her practice is in all aspects of restrictive covenant, trade secret misappropriation, and employment counseling and litigation. Nicole is a graduate of Boston College and Northeastern University School of Law.

Denise K. Drake
Polsinelli
Kansas City, Missouri
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As Department Chair of the Labor and Employment department, Denise Drake is known for her creative and practical approach to employment law issues, as well as her sincere interest in helping employers improve their workplaces, proactively avoid litigation, and strategically defend lawsuits. Denise has significant experience defending companies in discrimination, harassment, retaliation, wage & hour, and ERISA matters, including class actions, collective actions, multi-plaintiff, and multi-defendant lawsuits. Denise has a strong track record of defeating nationwide class and collective action certification, including nationwide cases valued at more than $500 million. Denise has obtained defense verdicts in single plaintiff trials and arbitrations involving: sexual and racial harassment, sex, race, disability, age discrimination, and retaliation and whistleblower claims. Denise has also successfully obtained strategic dismissals or summary judgments in cases filed across the nation. While Denise counsels clients in many industries, she has extensive experience and knowledge that allows her to advise clients on unique issues pertaining to certain industries.

Michael Elkon
Fisher Phillips LLP
Atlanta, Georgia
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Michael Elkon is a partner with Fisher Phillips. Michael practices in Atlanta and advised the Georgia Legislature on the bill that ultimately became Georgia's new Restrictive Covenant Act in 2010-11. Michael advises clients on restrictive covenant, trade secret, fiduciary duty, and computer theft issues throughout the country. Michael has also litigated dozens of such cases, representing both plaintiffs and defendants. Finally, Michael is a frequent writer and speaker on restrictive covenant issues, including with the Sedona Conference (where he served as a Contributing Editor on the Sedona Conference Commentary on Equitable Remedies in Trade Secret Litigation) and the American Intellectual Property Law Association.

James P. Flynn
Epstein Becker & Green P.C.
Newark, New Jersey
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Jim Flynn is the Managing Director of Epstein Becker Green, and a lawyer with over 30 years' experience in noncompetition and trade secret matters during which he has represented various stakeholders, from departing employees to new employers to former employers. As an invited attorney advisor, he worked closely with the New Jersey Law Revision Commission before the state's 2012 adoption of its version of the Uniform Trade Secrets Act, and was co-lead counsel on the appeal and later successful trial in New Jersey's leading physician restrictive covenant case (*Community Hospital v. More*, 183 N.J. 36 (2005)). His practice regularly includes high-stakes trade secret and data theft cases, and other matters involving employee mobility and the migration of confidential and proprietary information. He is long-time co-author of the Thomson Reuters Practical Law summary of Noncompete Laws: New Jersey, and has spoken and written on such topics many other times over the course of his career, and continues to do so (including at the upcoming (in September) Practicing Law Institute's Noncompetes 2021, where he will speak on Managing a Key Employee Departure to Avoid the Loss of Trade Secrets, Customers, and Colleagues).

Richard Friedman
Richard Friedman PLLC
New York, New York
Link to full bio here: https://www.linkedin.com/in/richardbfriedman

Richard B. Friedman is a former AMLAW100 partner and the managing attorney of New York-based Richard Friedman PLLC, a six lawyer firm which specializes in the following kinds of matters: (i) counseling, drafting, and negotiating on behalf of executives and professionals in connection with separation, employment, and other executive compensation agreements; (ii) "switching side" a/k/a "lift out" employment litigation matters involving, among other things, noncompete, trade secret, and fiduciary duty issues where the firm represents one or more employees generally referred by the clients' new employer's law firm; (iii) commercial litigation cases, particularly in the New York County Commercial Division where he serves as one of fifteen or so judicially appointed trial lawyers on the Advisory Committee along with the eight judges of that court; (iv) negotiating and, where necessary, litigating business divorces among shareholders of closely held corporations, members of limited liability companies, and partners; (iv) internal investigations referred to us by a corporation's law firm so that it can reduce the likelihood of a motion to disqualify that firm as litigation counsel and improve its prospects of defeating any such motion; and (v) FINRA arbitrations involving restricted stock units and other compensation-related issues on behalf of senior finance personnel against their former employers. Mr. Friedman has been a legal commentator on CNN, FOX News, Fox Business, HLN, and several other major networks on employment-related issues. Mr. Friedman is the founding co-chair of the In-house/Outside Counsel Litigation Group of the NYC Bar Association (the "Association"). He is also a member of the Board of Directors of the New York County Lawyers Association ("NYCLA"), a member of the Executive Committee of the Commercial & Federal Litigation Section of the New York State Bar Association ("NYSBA"), and a NYCLA delegate to the NYSBA House of Delegates, having served in that capacity as an Association Delegate for the maximum four one-year terms.

Bernard J. Fuhs
Butzel Long
Detroit, Michigan
Link to full bio here: https://www.butzel.com/attorneys-bernard-fuhs.html

Bernard (Bernie) J. Fuhs is a nationally recognized emergency litigator with expertise in noncompete, trade secret, shareholder dispute, and franchise litigation He has litigated and/or counseled clients on noncompete/trade secret matters in all 50 states and presented to many national and local business and/or legal organizations regarding the same. Mr. Fuhs was recently selected as a 2021 Top Michigan Trade Secret Lawyer by DBusiness Magazine and has been repeatedly selected as a Michigan Super Lawyer the last eight years.

Nicole Gage
Beck Reed Riden LLP
Boston, Massachusetts
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Nicole Gage is a Partner at Beck Reed Riden LLP with over 20 years of litigation and counseling experience in all aspects of intellectual property law and in relation to numerous industries. With an in-depth knowledge of IP law and its application, Nicole frequently teaches and advises companies and individuals on how to protect and enforce their respective intellectual property rights.

James A. Gale
Cozen O'Connor
Miami, Florida
Link to full bio here: https://www.cozen.com/people/bios/gale-james

Jim Gale is Co-Chair of Cozen O'Connor's IP Litigation department. He has been practicing Intellectual Property law and litigation for over 38 years, both as an outside lawyer in national and international law firms, and as General Counsel for an international medical device company. Jim was the inaugural chair of Florida's IP Board Certification Program. He has handled well over 400 injunctions in state and federal courts in over 35 different states in Trade Secret, Restrictive Covenant and employee "raiding" cases. In addition to multimillion dollar jury verdicts, and defense verdicts in "bet the company" litigation, Jim obtained a $2,300,000,000.00 judgment against a Chinese company that misappropriated his client's trade secret technology.

Nicole D. Galli
Law Offices of N.D. Galli LLC
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Nicole D. Galli is the founder and Managing Member of the ND Galli Law LLC, an intellectual property (IP) focused boutique law firm located in Philadelphia and New York that provides business law, IP and litigation services to emerging growth and large company clients. Nicole's practice focuses on commercial and IP litigation, IP and business counseling and trade secrets. In addition to her client work, Nicole is involved in several national initiatives around effective trade secrets management, including serving as a Vice Chair of IP Protection in the Supply Chain Committee for the LES Standards Setting Project, focused on developing ANSI "best practices" standards for managing IP (especially trade secrets) in a supply chain and serves on the Sedona Conference Working Group on Trade Secrets (WG12) Steering Committee and co-chairs the Sedona WG12 sub-team on the governance and management of trade secrets (Team 5).

Seth L. Hudson
Nexsen Pruet, PLLC
Charlotte, North Carolina
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Seth Hudson is a partner with Nexsen Pruet in Charlotte, NC. He is an intellectual property attorney with extensive experience in all areas of intellectual property law, including the procurement, enforcement, and maintenance of patent, trademark, and copyright portfolios. He regularly counsels clients and litigates disputes regarding restrictive covenants, trade secrets, false advertising, and noncompetition issues. He conducts trade secret audits and advises clients on which strategies to employ to protect their trade secrets and drafts appropriate nondisclosure and nonuse agreements.

J. Scott Humphrey
Benesch Friedlander Coplan & Aronoff LLP
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J. Scott Humphrey is National Chair of Benesch's Trade Secrets, Restrictive Covenant and Unfair Competition Group. Scott has litigation, arbitration, and counseling experience involving a wide range of complex commercial contract disputes and business torts, including matters arising from trade secret appropriation and breach of restrictive covenants. He currently serves as lead trade secret and restrictive covenant counsel for a broad range of clients, including financial services companies; commercial and consumer product manufacturers; consulting firms; pharmaceutical, surgical, and medical companies; processing companies; commercial product distributors; health care organizations; media firms; commercial transport companies; food and beverage companies; and insurance companies. His clients range from small business owners and startups, to Fortune 100 companies, and Scott has been recommended by Legal 500 as a go to lawyer for trade secrets and restrictive covenants.

Jackie Johnson
Jackie Johnson, P.C.
Dallas, Texas
Link to full bio here: https://www.jackiejohnsonlaw.com/

Jackie is a subject matter expert in the area of unfair competition and restrictive covenant agreements. She co-chaired Littler Mendelson's Unfair Competition and Trade Secrets practice group for almost a decade before leaving the firm in 2020 to start her own firm focusing on this subject area. Jackie is a frequent author and speaker on restrictive covenants and is the co-author of the treatises Unfair Competition and Intellectual Property Protection in Employment Law (Bloomberg BNA 2014) and Drafting and Enforcing Covenants Not to Compete (BNA 2009).

Hannah T. Joseph
Beck Reed Riden LLP
Boston, Massachusetts
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Hannah T. Joseph is Senior Counsel at Beck Reed Riden LLP, where she focuses her practice on complex commercial litigation. Specializing in the areas of trade secrets law, restrictive covenants, employee mobility, and unfair competition, she regularly litigates issues concerning the use and enforceability of noncompetition, nonsolicitation, and nondisclosure agreements, and counsels employers and employees regarding the same. She also counsels employers and employees on the identification and protection of trade secrets. Hannah has been named Super Lawyers' Rising Star in Massachusetts consecutively since 2016 and was recently recognized as "a talented lawyer to watch and a tenacious litigator" in The Legal 500 United States 2021. Hannah regularly publishes and speaks on the topics of intellectual property law and restrictive covenants, including through the American Intellectual Property Law Association, Boston Bar Association, Practising Law Institute, and Massachusetts Lawyers Weekly. In addition, Hannah co-teaches the course, *Trade Secrets and Restrictive Covenants*, at Boston University School of Law alongside Russell Beck. Hannah graduated from Binghamton University in 2007 and Boston College Law School in 2013.

Jennifer A. Kenedy
Locke Lord LLP
Chicago, Illinois
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Jennifer Kenedy is a Partner at Locke Lord, LLP, full-service AmLaw 100 law firm with global reach and 20 offices designed to meet clients' needs in the United States and around the world. Jennifer is a Vice Chair of Locke Lord's Executive Committee and former Managing Partner of the firm's Chicago Office. She concentrates her practice on commercial litigation, including noncompete and trade secret misappropriation and other intellectual property litigation. Jennifer mediates, arbitrates and tries cases on behalf of clients nationwide. Jennifer speaks on and trains lawyers on ethical issues arising from litigation, particularly in the trade secret/noncompete context. For over 15 years, Jennifer has acted as national counsel on restrictive covenant and trade secret issues for multiple national companies in the financial services, insurance, and healthcare industries. She obtains and defends against injunctions in federal and state courts nationwide, and has arbitrated dozens of restrictive covenant cases before FINRA.

Phillip C. Korovesis
Butzel Long
Detroit, Michigan
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Phillip C. Korovesis is a shareholder practicing in Butzel Long's Detroit office. He has been recognized by Michigan Super Lawyers (Business Litigation) and the Best Lawyers in America (Commercial Litigation). Mr. Korovesis' practice is focused on commercial disputes, with trial, litigation and consultation expertise in noncompete/trade secret disputes, product liability defense and business and financial services industry disputes. Mr. Korovesis has successfully tried cases in state and federal courts in various parts of the country and has successfully represented clients in state and federal appellate courts. Mr. Korovesis serves as the Chair of the Firm's Trade Secret and Noncompete Specialty Team which focuses on trade secret, noncompete and business tort litigation. Mr. Korovesis is a regular presenter on trade secret and noncompete issues to lawyers and other professionals. He is an active member of the Defense Research Institute in the commercial litigation, product liability and life insurance areas. He is a former President of the Michigan Defense Trial Counsel.

Heather Krauss
Beck Reed Riden LLP
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Heather Krauss is an attorney at Beck Reed Riden LLP, where she focuses her practice on all aspects of restrictive covenant, trade secret misappropriation, and employment counseling and litigation.

David Kurtz
Constangy, Brooks, Smith & Prophete, LLP
Boston, Massachusetts
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David Kurtz is head of the Boston office of Constangy, Brooks, Smith & Prophete LLP, a national employment law firm, where he also co-chairs the litigation department, leads the Firm's Technology & Entrepreneurial Ventures industry group and Transactional Solutions practice group, and serves as a member of the Firm's Executive Committee. David is a member of the state bars of California, Massachusetts and New York, and handles restrictive covenant disputes on behalf of employers nationwide.

Allan MacLean
MacLean Employment Law
Cambridge, Massachusetts
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Allan N. MacLean is the owner and founder of MacLean Employment Law, P.C. located in Cambridge, Massachusetts. Mr. MacLean has practiced employment law for approximately 16 years. A substantial portion of Mr. MacLean's practice focuses on counseling clients (individuals and companies) in connection with the preparation and enforcement of restrictive covenant agreements, including provisions concerning noncompetition, nonsolicitation, nondisclosure, and trade secret protection.

John F. Marsh
Bailey Cavalieri LLC
Columbus, Ohio
Link to full bio here: http://baileycav.com/people/john-f-marsh/

John advises and represents a wide range of clients in many industries, from Fortune 500 companies to individuals, in trade secret and restrictive disputes throughout the United States. As Chair of the American Intellectual Property Law Association's Trade Secret Law Committee, John was actively involved in providing comments and supporting the enactment of the Defend Trade Secrets Act, the federal statute that *The Wall Street Journal* called the "most significant expansion" of federal IP law in 70 years. John has written and presented on trade secret and restrictive covenant issues and he has been quoted on those issues by *The Wall Street Journal*, *Wired*, *Inside Counsel, Law360, The National Law Journal*, *Managing IP* and *Wired*; and his blog, "The Trade Secret Litigator" (www.tradesecretlitigator.com), has been cited by publications including *The Wall Street Journal*. John is listed in the 2016-2020 editions of *The Best Lawyers of America* for Litigation – Intellectual Property and in the 2009-2020 editions of *Ohio Super Lawyers*. John graduated in 1986 from John Carroll University and is a 1989 graduate of Vanderbilt Law School.

Melissa McDonagh
Littler Mendelson, P.C.
Boston, Massachusetts
Link to full bio here: https://www.littler.com/people/melissa-l-mcdonagh

Melissa McDonagh is a shareholder with Littler Mendelson, P.C., and the Co-Chair of Littler's Unfair Competition and Trade Secrets Practice Group. She has extensive experience representing employers, on both the prosecution and defense side, in actions involving unfair business competition around the country. To protect valuable company assets, Melissa works with employers to draft multi-state compliant restrictive covenant agreements to fit a company's unique needs. Her experience includes working with companies of all sizes in a variety of industries, such as technology, medical devices, biopharmaceutical, consulting, insurance brokerage, and staffing and recruiting.

Scott McDonald
Littler Mendelson PC
Dallas, Texas
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Mr. McDonald is a Shareholder in Littler Mendelson PC. He graduated from the University of Texas School of Law in 1987 and has spent the vast majority of the past 30 years of his legal career focused on labor and employment law issues with a concentration in unfair competition and trade secret disputes. He is the author and editor of numerous books and scores of articles related to the subject, including *Unfair Competition and Intellectual Property Protection in Employment Law*, Bloomberg BNA, McDonald & Johnson (2014), and *Drafting and Enforcing Covenants Not to Compete*, Bloomberg BNA, McDonald & Lichty (2009). He is a Co-Founder of Littler's Unfair Competition and Trade Secret Practice Group, a group that was recognized in

Lex Machina's July 18, 2018, Trade Secret Litigation Report as having handled more trade secret cases (for plaintiffs and defendants) between 2009 and 2018 than any other firm in the nation. Mr. McDonald has served on committees authoring revisions to the Texas noncompete statute, and served as an Advisor in the drafting of *Restatement of the Law – Employment Law* (ALI 2014). He has also participated in many precedent setting cases such as *Alex Sheshunoff Management Services, L.P. v. Johnson*, 209 S.W.3d 644, 648 (Tex. 2006) (as amicus curia for the Texas Assoc. of Businesses, helping correct a 10+ year misinterpretation of the Texas noncompete statute), *In Re Hewlett Packard*, 212 S.W.3d 356 (Tex. App. 2006) (establishing a new defense to pre-suit depositions in trade secret cases), and *Quantlab Technologies Ltd. v. Godlevsky*, 317 F.Supp.3d 943 (S.D. TX 2018) (establishing the standard for a large award of attorneys' fees in a trade secret case, and ultimately securing in excess of $40 million in total judgments for Quantlab after jury trial and appeal). Mr. McDonald has been consistently recognized by clients, press and his piers for exceptional service to the law and his clients. His recognition includes: BTI's Client Service All-Star Team; Best Lawyers in America (2006 - 2020) (Lawyer of the Year - Employment Law DFW (2013), Lawyer of the Year - Labor Law DFW (2015, 2017)); Law.com and Texas Lawyer ("*Dallas Lawyer Preserves $12.2M Trade Secrets Verdit at the 5th Circuit*," June 28, 2017); and Chamber's USA's America's Leading Lawyers for Business (2012 – 2019) which describes him as having "made a name for himself in the noncompete arena"). Mr. McDonald has a national practice that involves handling cases all across the nation and regularly advising clients on national unfair competition prevention and trade secret programs related to every state in the United States. He is past Chair of the Dallas Bar Association's Labor & Employment Law Section, and is Board Certified in Labor and Employment Law by the Texas Board of Legal Specialization.

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Paul M. Mersino is a Director and Shareholder in the Detroit office of Butzel Long, one of the oldest law firms in Detroit, Michigan, and serves as the Chair of the Litigation Practice Department. Mr. Mersino represents public and private companies, both as plaintiff's attorney and defendant's attorney, in noncompetition and trade secret disputes across the country. He has been recognized as a *Michigan Super Lawyer* and as a Top Lawyer in Detroit by *dBusiness Magazine* in the area of Trade Secrets.

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Robert Milligan is a partner at Seyfarth Shaw and co-chairs Seyfarth's Trade Secrets, Computer Fraud & Noncompetes practice group. Robert's practice encompasses a wide variety of commercial litigation and employment matters, including general business and contract disputes, unfair competition, trade secret misappropriation, and other intellectual property theft. His practice focuses on trade secret, noncompete, and data protection litigation and transactional work on a state, national, and international platform. His experience includes trials, binding arbitrations and administrative hearings, mediations, as well as appellate proceedings. Robert also provides advice to clients concerning a variety of business and employment matters, including nondisclosure, noncompete, and invention assignment agreements, corporate investigations, trade secret and intellectual property audits. He is an active in several leading trade secret organizations/committees, including within the ABA, State Bar of California, and Sedona Conference.

Daniel P. O'Meara
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Daniel P. O'Meara is a shareholder in the Philadelphia office of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. and a member of Ogletree's international Unfair Competition and Trade Secrets practice group. Mr. O'Meara has served as lead counsel in over 500 trade secret, restrictive covenant and duty of loyalty cases in state and federal courts across the nation. He is the author of three books concerning employment law, and regularly speaks and writes about issues of unfair competition. Mr. O'Meara has served as adjunct faculty within the Management Department of the Wharton School for over twenty-five years, and for six years was the co-host of In the Workplace, a weekly radio show on SiriusXM, Business Radio Powered by the Wharton School. He has been named a Pennsylvania Superlawyer for every year since 2005.

Jason F. Orlando
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Jason F. Orlando, Esq., an attorney at Murphy Orlando LLC in New Jersey and a Harvard Law School graduate, represents global companies and executives in New Jersey state and federal courts in noncompete and nonsolicitation agreement enforcement actions and matters involving the misappropriation of trade secrets. In addition to his work in the areas of intellectual property and employee mobility, Mr. Orlando has represented Fortune 500 companies, public entities, police unions, closely-held corporations, and individuals in a variety of commercial, criminal, and employment litigation matters. Prior to co-founding Murphy Orlando in 2009, Mr. Orlando served as a Special Assistant Attorney General for the State of New Jersey. Mr. Orlando has taught New Jersey State and Local Government Law and Urban Law and Policy at Rutgers Law School-Newark as an Adjunct Professor.

Eric Ostroff
Meland Budwick, P.A.
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Eric Ostroff is the managing partner of Meland Budwick, P.A., where he co-chairs the firm's Trade Secrets and IP practice group. He focuses his practice on trade secrets and noncompete/restrictive covenant litigation, representing both plaintiffs and defendants in these matters, throughout the country. He has written and spoken extensively about trade secrets and restrictive covenants and is frequently sought out by the media for commentary on these issues.

Christopher Pardo
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Recognized by the Boston Business Journal as a "40 Under 40" honoree in 2020, a "Top Lawyer Under 40" by the Hispanic National Bar Association in 2019, and a Super Lawyers Rising Star in Massachusetts every year since 2013, Christopher M. Pardo represents a broad range of corporate clients nationwide in complex employment litigation and high-stakes commercial lawsuits. A member of the bar in Massachusetts, Florida, New York, Connecticut, Ohio and Maine, Chris represents businesses and their executives across a broad spectrum of industries, providing timely and thoughtful preventative advice to his clients, with a particular focus in the areas of trade secret litigation and restrictive covenant agreements. Additionally, Chris oversees and manages labor and employment diligence in M&A matters, and regularly advises clients with respect to strategic business planning and handling multifaceted employment situations. Chris is the Co-Chair of the Hispanic National Bar Association's Labor and Employment Committee, a member of the Boston Bar Association's Labor and Employment Steering Committee, and the Co-Chair of the Minority Lawyers Subcommittee at Hunton Andrews Kurth.

Dean Pelletier
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Dean has been practicing intellectual property law for more than 25 years and focuses on leveraging patents and trade secrets. Dean's litigation, trial and appellate experience includes experience in federal and state courts and at the International Trade Commission. Dean represented Amsted Industries, the prevailing trade secret owner, in *TianRui v. ITC*, 661 F.3d 1322 (Fed. Cir. 2011). Dean is a member of the Illinois bar, a registered U.S. patent attorney, a member of the Trial Bar for the Northern District of Illinois and actively involved with the American Intellectual Property Law Association (Trade Secret Law Committee) and Sedona Conference (Working Group 12 on Trade Secrets).

C. Max Perlman
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C. Max Perlman is a Boston-based business litigator and employment lawyer with more than 25 years' experience representing companies and executives in sophisticated lawsuits in federal and state courts around the country. Mr. Perlman has extensive experience in cases involving noncompetition and nonsolicitation agreements and misappropriation of trade secrets. In addition to handling many of these cases in state and federal courts at the preliminary injunction phase, Mr. Perlman has the rare experience of conducting a jury trial in a noncompetition case, a case that he won, resulting in a seven-figure award for his client, and has served as mediator in noncompetition and trade secret disputes. Mr. Perlman litigates restrictive covenant and trade secret cases for clients in a range of sectors, including high-tech, medical and bio-tech, aviation, transportation/logistics, professional services, industrial/manufacturing, and venture capital. His clients range from large international corporations with thousands of employees to small, recently-funded companies and their founders. Mr. Perlman frequently lectures about restrictive covenant and trade secret law, including at Boston University School of Law, Harvard University Law School, Boston Bar Association, and Massachusetts Continuing Legal Education, where he is a member of the Board of Trustees.

Katherine Perrelli
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Kate Perrelli is the co-chair of Seyfarth Shaw LLP's national Trade Secrets, Computer Fraud & Noncompetes group and she is the Chair of the ABA Committee on Trade Secrets and Interference with Contracts. Kate is also the immediate past national chair of Seyfarth' s Litigation department. Clients turn to Kate when they are most concerned about losing their confidential proprietary information and trade secrets or when other companies have hit them with a shot across the bow alleging violations of common and statutory laws for hiring a new employee or group of employees. Kate is a nationally recognized authority in trade secret and unfair competition law, and companies rely on her experience to counsel them in protecting their business assets both before and after a dispute arises. In addition to representing her clients across the country on such matters in federal and state courts, arbitrations and mediations, she is also frequently retained to conduct complex investigations concerning executives, internal workplace misconduct and other internal complaints. Her services also include preparation of individual and multistate employer noncompete, nonsolicit, nondisclosure and other restrictive covenant agreements; advice regarding onboarding of employees or groups of employees from a competitor, or departing employees joining a competitor; and preparation and implementation of trade secret protection programs, including trade secret audits.

James Pooley
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Jim Pooley focuses on trade secret law and management, as an advocate, advisor, testifying expert and neutral. He is an author or co-author of several major IP works, including his treatise Trade Secrets (Law Journal Press) and the Patent Case Management Judicial Guide (Federal Judicial Center). His most recent business book is Secrets: Managing Information Assets in the Age of Cyberespionage (Verus Press 2015). The Senate Judiciary Committee relied on Jim for expert testimony and advice regarding the 2016 Defend Trade Secrets Act. From 2009 to 2014 Jim served as Deputy Director General of WIPO in Geneva, where he managed the international patent system. He is a past President of AIPLA and Chairman of the National Inventors Hall of Fame. He currently serves as Chair of the Sedona Conference Working Group 12 on Trade Secrets. In 2016 Jim was inducted into the IP Hall of Fame for his contributions to IP law and practice.

Stephen Riden
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Stephen Riden is a founding partner of Beck Reed Riden LLP, a litigation and employment boutique in Boston. His practice is in commercial litigation, and he represents corporate and individual clients in a wide array of commercial disputes across the country. Prior to starting Beck Reed Riden LLP, he was a senior counsel with Foley & Lardner LLP. Steve is a graduate of Boston College and Boston College Law School.

Tobias E. Schlueter
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Tobias Schlueter is a shareholder in the Chicago office of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. He is the Chairperson of Ogletree's international Unfair Competition and Trade Secrets practice group. Mr. Schlueter has an extensive and proven track record of litigating high stakes cases involving unfair competition claims (including restrictive covenants (noncompete, nonsolicit and confidentiality), trade secrets, duties of loyalty, tortious interference, and civil conspiracy). He also routinely advises clients, including Fortune 100 companies, about their unfair competition matters. He extensively speaks and writes about these issues. Under Mr. Schlueter's leadership over the past five years, Ogletree has handled over 1,500 unfair competition, trade secrets, and restrictive covenant cases for more than 1,000 clients. From 2018-2020, Ogletree was the most active trade secrets law firm in the United States, representing both plaintiffs and defendants. Mr. Schlueter is rated by Chambers USA as a Top Ranked / Leading Lawyer in Labor & Employment (2017, 2018, 2019, 2020 and 2021). Mr. Schlueter is also recognized as a Best Lawyer in America (2017, 2018, 2019, 2020 and 2021) for Employment Law – Management. In 2020 and 2021, Super Lawyers recognized Mr. Schlueter as an Illinois "Super Lawyer." Super Lawyers previously named Mr. Schlueter as an Illinois Rising Star for 2011, 2012, 2013 and 2014.

Mark Shank
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Mark Shank is well-known and respected in Texas and across the nation as a trial lawyer, strategist, arbitrator, mediator and negotiator. He has significant experience in a multitude of industries as an advocate in commercial litigation, employment disputes and arbitration matters.

With his remarkably broad background in high-stakes controversies, Mark is transitioning his practice focus toward alternate dispute resolution, regularly serving as an arbitrator or mediator in a wide range of business and employment disputes. He is a licensed AAA arbitrator and a Fellow of the College of Commercial Arbitrators and the Chartered Institute of Arbitrators – two of the most prestigious ADR professional organizations. Clients also call on Mark to serve as an independent investigator in corporate malfeasance and workplace misconduct matters. Mark continues to help clients on both sides of the docket facing difficult business issues, such as departing employees, high-exposure contract claims, officer and director liability, employment discrimination, wage and hour disputes and retaliation cases. He also has deep experience in litigation involving covenants not-to-compete, confidentiality and trade secrets. In addition, Mark represents clients in disputes and transactions concerning executive compensation and related issues. Mark is in high demand as a lecturer on current arbitration, business, employment and trade secret issues. He is also a prolific author, including the definitive book on Texas law as it treats departing employees. A stalwart of numerous bar associations and foundations in Texas, Mark previously served as Director of the State Bar of Texas and President of the Dallas Bar Association. Board Certified in Civil Trial Law and Labor and Employment Law by the Texas Board of Legal Specialization.

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Robert Shea is a labor and employment lawyer who has represented businesses and individuals in noncompete matters for over 35 years. For the past 20 years he also has acted as neutral in employment disputes and serves on arbitrator and mediator panels of both the American Arbitration Association and the International Institute for Conflict Prevention & Resolution. He is a past Chair of the Smaller Business Association of New England. He currently serves as an Associate Trustee of the National Small Business Association and also Chairs the Association's Health and Human Resources Policy Group.

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John Siegal is a Chambers-ranked business litigator who serves as co-head of BakerHostetler's national Noncompete & Trade Secrets Practice Group. He is the founding chair of the Trade Secrets Committee of the New York City Bar Association and a member of the Sedona Conference Working Group on Trade Secrets. He has litigated noncompete and trade secrets cases in federal or state courts in more than a dozen states and frequently handles noncompete and related arbitrations at FINRA. His writings on trade secrets and noncompete issues have been published in the *New York Law Journal*, the *National Law Journal,* as well as in various trade publications and academic law reviews.

Peter A. Steinmeyer
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Peter A. Steinmeyer is the Managing Shareholder of Epstein Becker Green's Chicago office and a co-chair of its Trade Secrets and Employee Mobility subpractice group. He frequently writes and speaks about workforce mobility issues, and he advised the Illinois Chamber of Commerce in its negotiations over the recently passed Illinois noncompete reform bill. Mr. Steinmeyer's recent publications include: "Illinois Noncompete Reform Balances Employee and Biz Interests" (coauthor), *Law360* (June 2021); "Hiring from a Competitor: Practical Tips to Minimize Litigation Risk" (coauthor), *Thomson Reuters Practical Law* (May 2021); and "Trade Secrets Law 25 Years After PepsiCo Disclosure Case" (coauthor), *Law360* (Jan. 2021).

Linda K. Stevens
Smith O'Callaghan & White
Chicago, Illinois
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Linda K. Stevens is an experienced litigator and counselor who helps clients protect their intellectual property and resolve their commercial disputes. Much of Ms. Stevens' work relates to employee departures, noncompetition and confidentiality covenants, trade secrets, and allegations of employee raiding and other unfair competition. Ms. Stevens is frequently asked to speak, write, and teach regarding her areas of concentration. She has held leadership positions in the trade secret and noncompetes area. For more than a decade, Ms. Stevens chaired her former firm's Trade Secrets and Restrictive Covenants Client Service Team, and she chaired an American Bar Association Trade Secrets subcommittee for many years, as well. After thirty years of large law firm practice, Ms. Stevens is now Of Counsel with Smith O'Callaghan & White in Chicago and an adjunct professor at Illinois Institute of Technology's Chicago-Kent School of Law.

Christine Bestor Townsend
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Christine Bestor Townsend is a shareholder in the Chicago and Milwaukee offices of Ogletree, Deakins, Nash, Smoak and Stewart, P.C. She serves on the steering committee for Ogletree's international Unfair Competition and Trade Secrets practice group. Ms. Bestor Townsend litigates cases involving unfair competition claims (including restrictive covenants (noncompete, nonsolicit and confidentiality), trade secrets, duties of loyalty, tortious interference, and civil conspiracy). She also partners with clients to craft and tailor their restrictive covenant strategies. Ms. Bestor Townsend was named a Super Lawyers Rising Star from 2014-2020.

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Dani Vanderzanden is an information security and employment lawyer whose trial practice focuses on the myriad of ways, whether entirely innocent or wholly nefarious, that employees compromise the integrity of employer systems, data, and proprietary information. She successfully represents clients on each side of these issues in cases involving restrictive covenants, intellectual property disputes, claims under the Computer Fraud and Abuse Act, the Defend Trade Secrets Act (and its state analogues), and she defends employers in facing claims arising under state and federal anti-discrimination and wage payment laws. She obtained a complete defense verdict following a four-day Zoom trial that took place (virtually) in Bristol Superior Court in October 2020, and she regularly practices in the state and federal courts in Maine, Massachusetts, New Hampshire and Vermont. She is a member of The Sedona Conference Working Group Series, which recently prepared the "Commentary on Protecting Trade Secrets Throughout The Employment Life Cycle." She regularly speaks on trade secret, cybersecurity, and employee mobility issues before industry groups and legal organizations and at conferences, roundtables, webinars, and seminars.

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Kyle Vieira is a business litigator whose practice focuses on trade secrets and restrictive covenant litigation. He has represented corporate clients on matters concerning, among other things, the enforceability of noncompetition, nondisclosure, and nonsolicitation agreements, trade secret misappropriation, unfair competition, breach of fiduciary duties, and interference with contracts. Kyle is also well-versed in e-discovery and has written articles and participated in Boston Bar Association panels on the topic.

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Jason Weber is a Dallas-based shareholder at Polsinelli and a member of the firm's Restrictive Covenants, Enforcement and Trade Secrets (RCETS) practice. Jason is Board Certified in Labor and Employment Law by the Texas Board of Legal Specialization and focuses his practice on business disputes and employment-related consulting and litigation. He has extensive experience enforcing and defending against restrictive covenants, both in Texas and nationally, and is a contributing author in the forthcoming Texas Litigator's Guide to Departing Employee Cases (2021).

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Erik is co-chair of the Litigation Department at Seyfarth Shaw's Boston office and a member of the firm's Trade Secrets, Computer Fraud & Noncompetes practice group. He has a national litigation practice, representing companies of all sizes and in various industries throughout the United States in high-stakes commercial litigation involving theft of trade secrets, breach of restrictive covenant agreements, employee raiding, breach of fiduciary duty and the duty of loyalty, and unfair competition. He also advises clients with respect to the protection of trade secrets and proprietary information; the drafting, implementation, and enforcement of post-employment restrictive covenants and commercial NDAs; and the hiring of executives, key employees, and strategic groups from competitors. Erik is a nationally-recognized trade secrets attorney, regularly publishing articles and speaking on related topics locally and nationally. He has been quoted in the *Washington Post* and *Law360* among other national publications. Erik currently serves as Vice Chair of the American Intellectual Property Law Association (AIPLA) Trade Secrets Law Committee, Co-Lead of the Monetary Remedies in Trade Secrets Disputes Drafting Committee for The Sedona Conference Working Group on Trade Secrets, and Co-Chair of the American Bar Association's Restrictive Covenants/Tortious Interference Sub-Committee of the Business Torts and Unfair Competition Committee. *Legal500* recommended Erik in its 2017, 2018, and 2019 editorials naming Seyfarth's Trade Secrets group as one of the top four in the country. Prior to joining Seyfarth, Erik clerked for the Honorable Peter W. Hall of the United States Court of Appeals for the Second Circuit.

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Neal F. Weinrich is a shareholder at Berman Fink Van Horn P.C. in Atlanta, Georgia. He concentrates his practice on commercial litigation involving restrictive covenants, trade secrets, computer fraud and other competition-related issues. He represents employers and employees from a wide variety of industries in unfair competition disputes in courts in Georgia and other jurisdictions, as well as in arbitral forums. Recognized by Super Lawyers as a Rising Star in Georgia since 2012, he writes and speaks frequently on various issues that arise in competition-related cases. He is also the co-founder of and a regular contributor to Georgia Noncompete and Trade Secret News (www.georgia-noncompete.com). Neal currently serves as the Vice-Chair of the Trade Secret Committee of the State Bar of Georgia's Intellectual Property Section, as well as Vice-Chair of the Labor & Employment Committee of the Atlanta Bar Association. Neal is also on the Drafting Committee on Covenants Not to Compete for the Uniform Law Commission. In the past, Neal served as the Vice-Chair of the Digital Forensics Subcommittee of the Trade Secret Law Committee of the American Intellectual Property Law Association and as co-chair of the Ethics and Professionalism Committee of the Young Lawyers Division of the

State Bar of Georgia. Neal graduated from Tulane University in 2003 and from Emory University School of Law in 2006.

Erik J. Winton
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Erik J. Winton is a principal in the Boston, Massachusetts, office of Jackson Lewis P.C. He is the co-leader of the firm's Restrictive Covenants, Trade Secrets and Unfair Competition practice group. His practice focuses on restrictive covenant drafting, counseling, litigation avoidance and litigation. He regularly provides valuable counsel to clients in New England and across the country regarding these issues. Erik has extensive experience as a litigator, including successful first chair jury trial experience. He represents employers in federal and state courts and administrative agencies in matters involving discrimination claims based on race, sex, sexual preference, national origin, and disability; retaliation, whistle blowing, wage/hour claims and Department of Labor complaints; allegations of wrongful discharge and breach of contract under the common law; and claims for tortuous injury, such as defamation, infliction of emotional distress and interference with advantageous relations. Erik has prevailed on the vast majority of dispositive motions filed on his clients' behalf, including several reported cases. Erik's practice emphasizes advising employers regarding how to comply with the full range of federal and state labor and employment laws. This includes advising clients on issues relating to disability and leave management, reductions in force, wage and hour laws and workplace safety. Erik also drafts and negotiates executive employment and severance agreements on behalf of both employers and executives. Erik speaks frequently regarding employment law issues. He joined the firm in 2000 after five years as a litigator at Fitzhugh & Associates (now Fitzhugh & Mariani, LLP), a litigation boutique with offices in Boston and Hartford, Connecticut. While attending law school, he was on the staff of the Cardozo Arts & Entertainment Law Journal.

James M. Witz
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James M. Witz is a litigator specializing in noncompetition and trade secret disputes, and cases involving emergency and injunctive relief. He is the co-chair of Littler Mendelson's national Unfair Competition and Trade Secret Practice Group. Mr. Witz represents both plaintiffs and defendants in restrictive covenant matters, and has obtained multiple seven figure trial verdicts in high-profile trade secret and restrictive covenant cases in courts around the United States and has successfully argued such matters in the higher courts as well. Mr. Witz counsels clients throughout the country regarding employee hiring, termination and related matters, including the drafting and implementation of effective employment agreements, confidentiality policies and restrictive covenants. Mr. Witz is a frequent speaker on restrictive covenant and trade secret matters, and has authored or contributed commentary on such matters for leading legal publications.

Attachment B

Employee Noncompetes
A State-by-State Survey

State	If Permitted and Statute	Protectable / Legitimate Interests	Standards	Exemptions	Continued Employment is Sufficient Consideration	Reformation Blue Pencil Red Pencil Purple Pencil	Enforceable Against Employees Terminated w/o Cause
Alabama	Yes. Ala. Code § 8-1-190-197 (*§ 8-1-1 repealed effective 1/1/2016*)	Trade secrets; confidential information; commercial relationships or contacts with specific prospective or existing customers, patients, vendors, or clients; customer, patient, vendor, or client goodwill; specialized and unique training involving substantial business expenditure specifically directed to a particular agent, servant, or employee (if identified in writing as consideration for the restriction).	Must be in writing, signed by all parties, and be supported by adequate consideration. Must preserve a protectable interest. A two-year restriction is presumptively reasonable. Employee has burden of proving undue hardship, if raised as a defense.	Professionals	Yes (pre-amendment)	Reformation	Yes, likely (pre-amendment)
Alaska	Yes	Trade secrets; intellectual property; customer lists; goodwill with customers; knowledge of his or her business practices; methods; profit margins; costs; other confidential information (that is confidential, proprietary, and increases in value from not being known by a competitor; other valuable employer data that the empoyer has provided to an employee that an employer would reasonably seek to protect or safeguard from a competitor in the interest of fairness.	Factors: limitations in time and space; whether employee was sole contact with customer; employee's possession of trade secrets or confidential information; whether restriction eliminates unfair or ordinary competition; whether the covenant stifles employee's inherent skill and experience; proportionality of benefit to employer and detriment to employee; whether employee's sole means of support is barred; whether employee's talent was developed during employment; whether forbidden employment is incidental to the main employment.	-	Undecided	Reformation	Undecided

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State	If Permitted and Statute	Protectable / Legitimate Interests	Standards	Exemptions	Continued Employment is Sufficient Consideration	Reformation Blue Pencil Red Pencil Purple Pencil	Enforceable Against Employees Terminated w/o Cause
Arizona	Yes	Trade Secrets; confidential information; customer relationships.	No broader than necessary to protect the employer's legitimate business interest; not unreasonably restrictive; not contrary to public policy; ancillary to another contract.	Broadcasters; maybe physicians	Yes	Blue Pencil	Undecided
Arkansas	Yes. AR Code 4-75-101	Trade secrets; intellectual property; customer lists; goodwill with customers; knowledge of business practices; methods; profit margins; costs; other confidential information (that is confidential, proprietary, and increases in value from not being known by a competitor); training and education; other valuable employer data (if provided to employee and an employer would reasonably seek to protect or safeguard from a competitor in the interest of fairness).	Limited with respect to time and scope in a manner that is not greater than necessary to defend the protectable business interest of the employer. The lack of a geographic limit does not render the agreement unenforceable, provided that the time and scope limits appropriately limit the restriction. Factors to consider include the nature of the employer's business interest; the geographic scope, including whether a geographic limit is feasible; whether the restriction is limited to specific group of customers or others; and the nature of the employer's business. A two-year restriction is presumptively reasonable unless clearly demonstrated otherwise.	Various professionals (medical, veterinary, social workers, others)	Yes	Reformation (mandatory)	Undecided, but it can be a factor.
California	No, except maybe as to trade secrets. Cal. Business & Professions Code §§ 16600-16602.5	Trade secrets.	Uncertain status as to trade secrets.	-	-	-	-
Colorado	Yes. Colo. Rev. Stat. § 8-2-113	Trade secrets; recovery of training expenses for short-term employees.	Must fall within statutory exception (executive or management employees and professional staff or to protect trade secrets or recover cost of training); be reasonable; and be narrowly-tailored.	Physicians (damages not barred)	Yes	Reformation	Undecided

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State	If Permitted and Statute	Protectable / Legitimate Interests	Standards	Exemptions	Continued Employment is Sufficient Consideration	Reformation Blue Pencil Red Pencil Purple Pencil	Enforceable Against Employees Terminated w/o Cause
Connecticut	Yes	Trade secrets; confidential information; customer relationships.	Factors: time; geographic reach; fairness of protection afforded to employer; extent of restraint on employee; extent of interference with public interest.	Broadcasters; security guards; limited as to physicians	Yes, likely	Blue Pencil	Yes
Delaware	Yes	Trade secrets; confidential information; customer relationships.	Reasonable in time and geographic reach; protects legitimate economic interests; survives balance of equities.	Physicians	Yes	Reformation	Yes
DC	Yes *[NEW LEGISLATION IS PENDING AMENDMENT AND FUNDING]*	Trade secrets; confidential knowledge; fruits of employment.	Reasonable in time and geographic area; necessary to protect legitimate business interests; promisee's need outweighs promisor's hardship. [Follows Restatement (Second) of Contracts, §§ 186-88.] *[NEW LEGISLATION - SUBJECT TO PENDING AMENDMENTS - WILL CHANGE THE RULES ONCE FUNDED; EFFECTIVE DATE TBD. THIS SECTION WILL BE UPDATED WHEN THE LAW CHANGES]*	Broadcasters	Yes (if employment continued for sufficient duration)	Reformation	Undecided
Florida	Yes. Fla. Stat. Ann. §§ 542.335	Trade secrets; confidential business information; substantial customer relationships and goodwill; extraordinary or specialized training.	Legitimate business interest; reasonably necessary to protect legitimate business interest. [Rebuttal presumptions exist.]	Mediators; physician specialists (where they are exclusive in a county)	Yes	Reformation (mandatory)	Undecided

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Georgia	Yes. Ga. Const., Art. III, Sec. VI, Par. V(c), as amended; OCGA §§ 13-8-50-59. [*NOTE*: Pre-amendment law was more restrictive and applies to pre-amendment agreements]	Trade secrets (per OCGA § 10-1-761); valuable confidential information that does not otherwise qualify as a trade secret; substantial relationships with specific prospective or existing customers, patients, vendors, or clients; customer, patient, or client goodwill associated with: an ongoing business, commercial, or professional practice, a specific geographic location; or a specific marketing or trade area; and extraordinary or specialized training. [Statute anticipates additional legitimate business interests.]	Reasonable in time, space, and scope; justified by a legitimate business interest; applied to employees who regularly solicit customers, engage in sales, perform the duties of a key employee, or have the duty of managing a department and regularly direct the work of employees and have the authority to hire or fire them. [Statute provides presumptions for reasonableness of time and geography.]	-	Yes	Blue Pencil (according to the Northern District).	Yes, but it's a factor to consider.
Hawaii	Yes. Haw. Rev. Stat. § 480-4	Trade secrets; confidential information.	Reasonable in time, space, scope.	Employees in a technology business [effective as of 1/1/2015]	Yes, likely	Reformation	Undecided

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Idaho	Yes. Idaho Code §§ 44-2701-2704	Trade secrets; technologies; intellectual property; business plans; business processes and methods of operation; goodwill; customers; customer lists; customer contacts and referral sources; vendors and vendor contacts; financial and marketing information; potentially others.	Applicable to "key employee"; reasonable as to duration, geographical area, type of employment or line of business, and does not impose a greater restraint than is reasonably necessary to protect the employer's legitimate business interests; reasonable as to covenantor, covenantee, and public. Rebuttable presumptions of reasonableness: 18 months; geographic area restricted to areas employee provided services or had significant presence or influence; limited to line of business in which employee worked. Presumption that employee is "key employee" if in highest paid 5% employees in company.	Non-"key employees." ("Key employees" are those who have gained a high level of inside knowledge, influence, credibility, notoriety, fame, reputation or public persona as a representative or spokesperson of the employer, and as a result, have the ability to harm or threaten an employer's legitimate business interests.)	Yes (but if no additional consideration, noncompete is limited to 18 months)	Reformation	Yes

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Illinois	Yes 820 I.L.C.S. §§ 90/1 et seq.	For agreements pre-January 1, 2022: Legitimate business interests are based on the totality of the facts and circumstances of the case. Trade secrets, confidential information, and near permanent business relationships are factors. For agreements entered on or after January 1, 2022: "the employee's exposure to the employer's customer relationships or other employees, the near-permanence of customer relationships, the employee's acquisition, use, or knowledge of confidential information through the employee's employment, the time restrictions, the place restrictions, and the scope of the activity restrictions." The bill is also express that "[n]o factor caries any more weight than any other" and that the "factors are only non-conclusive aids in determining the employer's legitimate business interest, which in turn is but one component in the 3-prong rule of reason, grounded in the totality of the circumstances."	For agreements pre-January 1, 2022: No greater than required to protect a legitimate business interest; does not impose undue hardship on the employee; not injurious to the public; and reasonable in time, space, and scope. [May require two years of employment before any noncompete can be enforced.] For agreements entered on or after January 1, 2022: Noncompete "is illegal and void unless (1) the employee receives adequate consideration, (2) the covenant is ancillary to a valid employment relationship, (3) the covenant is no greater than is required for the protection of a legitimate business interest of the employer, (4) the covenant does not impose undue hardship on the employee, and (5) the covenant is not injurious to the public," and the employee (a) is advised "in writing to consult with an attorney" and (b) provided with the covenant at least 14 calendar days' notice (though the notice is waivable). Adequate consideration is defined as: "(1) the employee worked for the employer for at least 2 years after the employee signed an agreement containing a covenant not to compete . . . or (2) the employer otherwise provided consideration adequate to support an agreement to not compete . . . , which consideration can consist of the period of employment plus additional professional or financial benefits or merely professional or financial benefits adequate by themselves." [*Attorney's fees to prevailing employee*.]	Broadcasters; government contractors; physicians; low-wage workers For agreements entered on or after January 1, 2022: The "low-wage" exception changes to a wage threshold (all earnings from the employer) of $75,000 (increasing to $80,000 by 2027, $85,000 by 2032, and $90,000 by 2037); individuals covered by collective bargaining agreements under the Illinois Public Labor Relations Act or the Illiinois Educational Labor Relations Act or employed in construction (unless they "primarily perform management, engineering or architectural, design, or sales functions for the employer or . . . are shareholders, partners, or owners in any capacity of the employer").	Yes (if employment continued for sufficient duration)	For agreements pre-January 1, 2022: Reformation For agreements entered on or after January 1, 2022: Reformation (purple pencil)	For agreements pre-January 1, 2022: Yes For agreements entered on or after January 1, 2022: No, if the employer enters a noncompete with an employee who is terminated, furloughed or laid off "as the result of business circumstances or govermental orders related to the COVID-19 pandemic," unless the employee is paid the equivalent of their base salary (less earnings from new employment).

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Indiana	Yes	Trade secrets; confidential information; goodwill.	Reasonably necessary to protect the employer, not unreasonably restrictive of the employee and not against public policy. Clear and specific (not general) restraint must be reasonable in light of the legitimate interests to be protected; reasonableness is measured by totality of interrelationship of the interest, and the time, space, and scope of the restriction, judged by the needs for the restriction, the effect on the employee, and the public interest. Physician noncompetes entered into on or after July 1, 2020, must contain specific provisions concerning communications with patients, access to patient information, and a "buy-out" option. *See* Ind. Code § 25-22.5-5.5.	-	Yes	Blue Pencil	Yes
Iowa	Yes	Trade secrets; goodwill; special training or peculiar knowledge that would unjustly enrich an employee at the expense of the former employer.	Whether the restriction is reasonably necessary to protect the employer's business, unreasonably restrictive (time and space), and prejudicial to the public interest.	Franchisees (where franchisor does not renew)	Yes	Reformation	Yes, but it's a factor to consider.
Kansas	Yes	Trade secrets; confidential business information; loss of clients; goodwill; customer contacts; referral sources; reputation; special training.	Reasonable under the circumstances: protects a legitimate business interest; no undue burden on the employee; not injurious to public interest or welfare; reasonable in time and space.	Accountants (limited)	Yes	Reformation	Yes
Kentucky	Yes	Confidential business information; customer lists; competition; investment in training.	Reasonable in scope and purpose; reasonableness determined by the time, space, and "charter" of the restriction; no undue hardship; does not interfere with public interest.	-	No, although threatened loss of job might be a factor.	Reformation	Yes, but it can be a factor.

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Louisiana	Yes. La. Rev. Stat. Ann. § 23:921	Trade secrets; financial information; management techniques; extensive training (if such training is unrecouped through employee's work).	No more than two years; specifies the specific geographic reach (by parishes, municipalities, or their respective parts); defines employer's business; strict compliance with statute.	Automobile salesmen; real estate broker's licensees (procedural requirements)	Yes	Blue Pencil, if allowed by the noncompete	Yes, likely
Maine	Yes Me. Rev. Stat. Ti. 26, c. 7, § 599-A	Trade secrets; confidential information; goodwill.	No broader than necessary to protect the employer's legitimate business interest; reasonable as to time, space, and interests to be protected; no undue hardship to employee. In addition, *for agreements signed on or after September 18, 2019*: employee must receive notice of noncompete by time of offer and a copy of the agreement 3 business days in advance of the deadline to sign; and the employee (except certain physicians) must be employed at least a year or remain employed for at least six months after signed, whichever is longer.	Broadcast industry (presumption); low-wage workers (earning less than or equal to 400% of the federal individual poverty level - $49,960 as of 2019)	Yes	Reformation	Yes, likely
Maryland	Yes Md. Code, Lab. & Empl. § 3-716	Trade secrets; routes; client lists; established customer relationships; goodwill; unique services.	Duration and space no wider than reasonably necessary to protect legitimate interests; no undue hardship to employee; not contrary to public policy; ancillary to the employment.	*Effective 10/1/2020:* Low-wage employees, *i.e.*, employees earning less than $15 per hour or $31,200 annually	Yes	Blue Pencil	No, likely

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Employee Noncompetes
A State-by-State Survey

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Massachusetts	Yes. Mass. Gen. Laws c. 149, § 24L (applies only to agreements signed on or after October 1, 2018)	Trade secrets; confidential information; goodwill.	Narrowly tailored to protect legitimate business interest; limited in time, space, and scope; consonant with public policy. Additional requirements added by 2018 statute: must be signed by both parties; provided to employee 10 business days in advance (or prior to a formal offer, if earlier); state that the employee has the right to consult counsel; and satisfy consideration requirements. Presumptions of necessity of the agreement and reasonableness as to place and scope apply.	Broadcasters; physicians; nurses; social workers; psychologists. Additional exemptions added by 2018 statute: FLSA nonexempt employees; student interns/short-term student employees; employees who have been terminated without cause or laid off; and employees that re 18 years old or younger	No (per new statute; yes before)	Reformation	No (per new statute; yes before)
Michigan	Yes. Mich. Comp. Laws § 445.774a	Trade secrets; confidential business information; goodwill.	Must have an honest and just purpose and to protect legitimate business interests; reasonable in time (no more than one year), space, and scope or line of business; not injurious to the public.	-	Yes	Reformation	Yes
Minnesota	Yes	Trade secrets; confidential business information; goodwill; prevention of unfair competition.	No broader than necessary to protect the employer's legitimate business interest; does not impose unnecessary hardship on employee.	-	No	Reformation (though called "blue pencil")	Yes
Mississippi	Yes	Trade secrets; confidential business information; goodwill; ability to succeed in a competitive market.	Reasonableness and specificity of restriction, primarily, in time and space; hardship to employer and employee; public interest.	-	Yes (though questioned if employee terminated shortly after)	Reformation	Yes, absent bad faith or arbitrary basis for termination

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Missouri	Yes. 28 Mo. Stat. Ann. § 431.202 (related)	Trade secrets; confidential business information; customer or supplier relationships, goodwill, or loyalty; customer lists; protection from unfair competition; stability in the workforce.	Reasonably necessary to protect legitimate interests; reasonable in time and space; not an unreasonable restraint on employee; purpose served; situation of the parties; limits of the restraint; specialization of the business. [Absence of legitimate business interest impacts duration, which can be no more than one year.]	Secretaries (limited); clerks (limited)	No	Reformation	Yes
Montana	Yes. Mont. Code Ann. §§ 28-2-703-05	Trade secrets; proprietary information that would provide an employee with an unfair advantage; goodwill; customer relationships.	Partial or restricted in its operation by being limited in operation either as to time or place; supported by "some good consideration"; protects a legitimate business interest; reasonable, affording only a fair protection to the interests of the party in whose favor it is made, and not so large in its operation as to interfere with (or impose an unreasonable burden upon) the employer, the employee, or the interests of the public.	-	No	Blue Pencil, likely	No
Nebraska	Yes	Trade secrets; confidential information; goodwill.	Reasonably necessary to protect legitimate interests; not unduly harsh or oppressive to employee; not injurious to the public. Considerations include: inequality in bargaining power; risk of loss of customers; extent of participation in securing and retaining customers; good faith of employer; employee's job, training, health, education, and family needs; current employment conditions; need for employee to change his calling or residence; relation of restriction to legitimate interest being protected.	-	Yes, likely	Red Pencil	Undecided

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Nevada	Yes. Nev. Rev. Stat. § 613.195-200 [*effective June 3, 2017*]	Trade secrets; goodwill.	Void unless: (a) supported by valuable consideration; (b) not greater than required to protect employer; (c) no undue hardship on employee; and (d) appropriate in relation to the consideration. Cannot restrict employee from providing service to customer/client if (a) customer/client was not solicited; (b) customer/client voluntarily chose to leave or seek services from employee; and (c) employee otherwise complies with time, geographical area, and scope of noncompete. [*Effective 10/1/2021: Attorney's fees for the employee if the employer ignored the exemption or used the noncompete to prevent solicitation of customers in violation of the statute.*]	Pre-10/1/2021: none *Effective 10/1/2021*: employees "paid solely on an hourly wage basis, exclusive of any tips or gratuities"	Yes (pre-amendment)	Pre-10/1/2021: Reformation (mandatory) Effective 10/1/2021: Reformation (mandatory), and revised noncompete must "not impose undue hardship on the employee"	Undecided, except in connection with reduction in force, "reorganization or similar restructuring of the employer," in which case employee must be paid "salary, benefits or equivalent compensation," including severance.
New Hampshire	Yes. RSA 275:70, 275:70-a	Trade secrets; confidential business information; goodwill; employee's special influence over the employer's customers; contacts developed during employment..	Not greater than necessary to protect the employer's legitimate business interests; no undue or disproportionate hardship to employee; not injurious to public interest; new employees must be given a copy of the noncompete prior to acceptance of offer for employment.	Physicians (RSA 329:31-a (*effective 8/5/2016*)); low-wage employees, *i.e.*, those earning less than or equal to 2x minimum the applicable wage - federal or state for tipped workers (*effective 9/8/2019*).	Yes	Reformation	Undecided
New Jersey	Yes	Trade secrets; confidential business information; goodwill in existing customers; preventing employee from working with customer at lower cost than working through employer.	Protects a legitimate business interest; not undue burden on employee; not injurious to the public; not overbroad in time, space, and scope.	In-house counsel; psychologists	Yes	Reformation	Yes, but it's a factor to consider.

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New Mexico	Yes. N.M.S.A. 1978, §§ 24-1I-1-5 (creates healthcare practitioner exemption only)	Maintaining workforce; limitation of competition (but not to stifle competition); customer relationships.	Reasonable as applied to the employer, employee, and public; not great hardship to employee in exchange for small benefits to employer.	Healthcare practitioners (dentists, osteopathic physicians, physicians, podiatrists, certified registered nurse anethetists) to the extent they are providing clinical health care services. [Exemption has limits (including that it does not apply to a covered medical professional if they are a shareholder, owner, partner, or director of a health care practice) and is effective only to agreements from 7/1/2015 and after.]	Yes, likely	Undecided	Undecided
New York	Yes	Trade secrets; confidential information; goodwill; on-air persona of broadcasters; employee's unique or extraordinary services.	Reasonable in time and space, and no greater than is required for the protection of the legitimate interest of the employer; does not impose undue hardship on the employee; not injurious to the public.	-	Yes	Reformation	Cases are split
North Carolina	Yes. N.C. Gen. Stat. § 75-4	Trade secrets; confidential business information; goodwill.	In writing; part of an employment contract; reasonably necessary to protect legitimate business interest; reasonable in time and space; not against public policy.	Physicians, possibly (in underserved areas)	No	Blue Pencil	Yes, likely
North Dakota	No. N.D. Cent. Code § 9-08-06	-	-	-	-	-	-

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Ohio	Yes	Trade secrets; confidential information; customer relationships; prevention of the use of proprietary customer information to solicit customers.	Not greater than necessary to protect the employer's legitimate business interests; no undue hardship to employee; not injurious to public interest. Considerations: absence or presence of limitations as to time and space; whether employee is sole contact with customer; employee's possession of trade secrets or confidential information; purpose of restriction (elimination of unfair competition vs. ordinary competition and whether seeks to stifle employee's inherent skill and experience); proportionality of benefit to employer as compared to the detriment to the employee; other means of support for employee; when employee's talent was developed; whether forbidden employment is merely incidental to the main employment.	-	Yes	Reformation	Yes
Oklahoma	No. OK Stat. § 15-219A	-	-	-	-	-	-

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Oregon	Yes. Or. Rev. Stat. § 653.295	Trade secrets; confidential business or professional information; investment in certain on-air broadcasters; customer contacts and goodwill.	Noncompete must be provided at least two weeks before employment or with a bona fide advancement; employee is in an executive, administrative, or professional role and meets minimum compensation threshold; restricted in time or space; application of restriction should afford only a fair protection of the employer's interests; must not interfere with public interest. *As of January 1, 2016*, noncompetes are limited to 18 months. [Qualifying garden leave clauses are enforceable.] *Effective January 1, 2020*, a signed, written copy of the employee's noncompete must be sent within 30 days following termination of employment. *Noncompetes entered on or after January 1, 2022, cannot be longer than 12 months, and employees subject to them must have "annual gross salary and commissions" exceeding $100,533 (adjusted annually for inflation); failure to satisfy the statutory requirements renders the nonocmpete void.*	Home healthcare workers. *Though not listed as exemptions, a salary threshold applies. For agreements entered into before January 1, 2022: an "employee's annual gross salary and commissions" must "exceed[] the median family income for a four-person family" applies; for agreements entered on or after January 1, 2022, the "employee's annual gross salary and commissions" must "exceed[] $100,533, adjusted annual for inflation . . . ."*	No	Reformation	Undecided
Pennsylvania	Yes	Trade secrets; confidential information; goodwill; investment in specialized training; unique or extraordinary skills; patient referral base.	Reasonably necessary to protect the employer's legitimate interests; reasonable in time and space.	-	No	Reformation	Yes, but it's a factor to consider.

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Rhode Island	Yes R.I. Gen. Laws §§ 28-59-1–3	Trade secrets; confidential information; customer lists; goodwill; training in unique or special services.	Narrowly tailored to protect a legitimate business interest; reasonably limited in activity, geography, and time; does not impose undue burden on employee in light of the need to protect the employer's legitimate business interests; not likely to harm the public interest.	Physicians. *Effective 1/15/2020* (*with retroactive effect*): employees who are 18 years old or younger; student interns/short-term student employees; FLSA nonexempt employees and other low-wage employees, *i.e.*, employees earning no more than 2.5x the federal poverty level (currently $31,225 – based on the employee's "regular" hours, *i.e.*, non-overtime, non-weekend, non-holiday hours).	Undecided, but likely	Reformation	Undecided
South Carolina	Yes	Business and customer contacts; existing employees; existing payroll deduction accounts.	Necessary to protect legitimate business interest; reasonably limited in time and space; not unduly harsh and oppressive to employee's efforts to earn a living; reasonable from standpoint of public policy.	-	No	Blue pencil, likely. (SC S.Ct rejected blue pencil doctrine by name, but case involved reformation; SC Ct. App. has since permitted step-down provisions.)	Undecided

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South Dakota	Yes. S.D. Codified Laws §§ 53-9-8, *et seq*.	Trade secrets; protection from unfair competition; existing customers.	Restriction in the same business or profession as that carried on by employer and does not exceed two years and in a specified geographic area; reasonableness in time, space, and scope is a factor in certain circumstances.	-	Yes	Reformation, likely	Yes, but it's a factor to consider.
Tennessee	Yes	Trade secrets; confidential information; retention of existing customers; specialized training.	Reasonable in time and space and necessary to protect legitimate interest; public interest not adversely affected; no undue hardship to the employee.	Physicians (in certain circumstances).	Yes (if employment continued for appreciably long period)	Reformation	Yes, but it's a factor to consider.
Texas	Yes. Tex. Bus. & Com. Code §§ 15.50-.52	Trade secrets; confidential or proprietary information; goodwill; specialize training.	Reasonable in time, space, and scope; does not impose a greater restraint than necessary to protect legitimate business interest. **In December 2011, the Texas Supreme Court withdrew its June 2011 landmark decision, but still eliminated the requirement that the consideration given by the employer in exchange for the noncompete must give rise to the interest protected by the noncompete, and held that the consideration for the noncompete agreement must be reasonably related to the company's interest sought to be protected.*	Physicians (in certain circumstances)	No	Reformation (mandatory)	Yes
Utah	Yes. Utah Code Ann. §§ 34-51-101-301 [Certain changes apply to agreements starting May 10, 2016 and others May 14, 2019]	Trade secrets; goodwill; extraordinary investment in training or education.	Carefully drawn to protect only the legitimate interests of the employer, reasonable based on geography, duration, and nature of the employee's duties in light of the legitimate business interests to be protected. One year limit for agreements entered on or after May 10, 2016.	Broadcasters (under certain circumstances)	Yes	Undecided	Yes

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Vermont	Yes	Trade secrets; confidential information; goodwill; relationships with customers.	Necessary to protect legitimate business interest; not unnecessarily restrictive to employee; limited in time, space, and/or industry; not contrary to public policy.	Beauticians and cosmetologists (by their school)	Yes	No, but possibly if contract provides.	Undecided
Virginia	Yes	Trade secrets; confidential information; knowledge of methods of operation; protection from detrimental competition; customer contacts.	Narrowly drawn (no greater than necessary) to protect the employer's legitimate business interest; reasonable in time, space, and scope; not unduly harsh or oppressive (or burdensome on the employee) in curtailing the employee's ability to earn a livelihood; not against, and reasonable in light of, sound public policy. *Effective 7/1/2020: a notice must be posted.*	*Effective 7/1/2020*: "Low-wage" employees, *i.e.*, employees earning less than approximately $52,000 annually; likely not applicable to salespersons.	Yes	Red Pencil, but severable portions can be enforced if remaining restrictions are otherwise enforceable.	Yes
Washington	Yes RCW §§ 49.62.005–900	Customer information and contacts; goodwill.	Restriction is necessary to protect employer's business or goodwill; restriction is no greater than reasonably necessary to secure employer's business or goodwill; reasonable in time and space; injury to public does not outweigh benefit to employer. *Effective* 1/1/2020: notice must be provided before acceptance of offer or before agreement becomes effective (whichever applies); independent consideration for mid-employment agreements; and presumption (rebuttable by clear and convincing evidence to the contrary) that a noncompetes with a duration longer than 18 months are unreasonable and unenforceable; must not avoid Washington law; must not require adjudication outside of Washington; attorney's fees to employee if noncompete violates the statute.	Broadcasters (under certain circumstances). *Effective 1/1/2020*: Employees earning less than or equal to $100,000 for employees and independent contractors earning less than or equal to $250,000 (both adjusted for inflation); employees who are laid off (unless paid base salary, less new earnings). *Also effective 1/1/2020*: cannot prohibit moonlighting for low-wage workers, *i.e.*, those earning less than 2x minimum hourly rate.	No	Reformation	Yes, likely

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West Virginia	Yes	Trade secrets; confidential or unique information; customer lists; direct investment in employee's skills; goodwill.	Ancillary to a lawful contract; not greater than reasonably necessary to protect legitimate business interest; reasonable in time and space; no undue hardship on employee; not injurious to public.	-	No	Reformation	Undecided
Wisconsin	Yes. Wis. Stat. Ann. § 103.465	Trade secrets; confidential business information; customer relationships.	Necessary to protect legitimate business interest; reasonable in time and space; not harsh or oppressive to the employee; not contrary to public policy.	-	Yes, if continued employment is conditioned on signing the agreement.	Red pencil, but, courts (and legislature) may be moving toward a more tolerant approach.	Undecided
Wyoming	Yes	Trade secrets; confidential information; special influence of employee over customers to the extent gained during employment.	Restraint must be ancillary to otherwise valid agreement and fair; no greater than necessary to protect legitimate business interests; reasonable in time and space; no undue hardship on employee; employer's need outweighs harm to employee and public; not injurious to public.	-	No	Reformation	Yes, likely.

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A State-by-State Survey

State	If Permitted and Statute	Protectable / Legitimate Interests	Standards	Exemptions	Continued Employment is Sufficient Consideration	Reformation Blue Pencil Red Pencil Purple Pencil	Enforceable Against Employees Terminated w/o Cause
	Chart covers employee noncompetes only. It does not cover noncompetes arising from the sale of a business or in other contexts.	*The interests identified above are those expressly identified by statute or case law. Other protectable interests may exist.* *Where trade secrets are not expressly referenced but confidential information is, they are protected insofar as confidential information is a broader category that includes trade secrets.* *Customer lists are frequently included within the category of trade secrets or confidential information, assuming the particular customer list satisfies the requirements to be protectable as such. Some states, however, separately identify them as protectable interests.*	*Consideration for a noncompete is always required, as is the requirement that a noncompete be ancillary to an otherwise lawful agreement. These requirements are typically satisfied when the agreement is entered into at the inception of an employment relationship.*	*Attorneys and certain persons in the financial services industry are subject to industry regulations not addressed in this chart.*	*The continued employment issue addresses only at-will employment relationships.*	*Reformation is sometimes called "Judicial Modification," the "Rule of Reasonableness," the "Reasonable Alteration Approach," or the "Partial-Enforcement" rule. Red Pencil is sometimes called the "All or Nothing" rule. "Purple pencil" is a reformation approach with an express good faith (of the drafter) requirment.*	*Addresses only not-for-cause terminations and assumes no breach or bad faith by the employer.*

Originally drafted in 2010, this chart is updated periodically and is current as of the date indicated.
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