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Why Do Non-Compete Agreements Get All the Press?

Other restrictive covenants are more important for protecting a business.

By Christopher W. Tackett

For companies of all shapes and sizes, incorporating restrictive covenants into their employee policies and agreements is a critical step to protect intangible assets and goodwill developed in the operations of the company. For technology companies, in particular, this step is highly critical due to the intangible nature of their greatest asset—their intellectual property. As you are likely aware, President Joe Biden issued an executive order, Promoting Competition in the American Economy, on July 9, 2021, directing the Federal Trade Commission (FTC) to begin rulemaking to develop rules that are to significantly restrict the use and enforceability of non-compete agreements in the United States.

The order's announcement has led to much concern among unfair competition lawyers like myself. But, aside from the fact that any FTC rule to broadly limit non-compete agreements would undoubtedly be subject to legitimate legal challenges, this is an important time to emphasize that there are other mightier and more effective restrictive covenants that companies should focus on over non-competes. Below is an outline of the essential restrictive covenants that are likely to be unaffected by any FTC rulemaking on restrictive covenants and that are an essential part of the tool kit for in-house legal and outside counsel looking to protect trade secrets and other proprietary information.

Covenants to Protect Intellectual Property Rights

The first group of noteworthy restrictive covenants helps the protect intellectual property rights of businesses. Indeed, if a company or client is at all in the technology space, chances are that its intellectual property is its golden goose, for the protection of which every precaution should be taken and the covenants below would be an imperative in agreements with any employees who create intellectual property for the company.

- A "works-made-for-hire" covenant is an express covenant providing that any copyrightable works that the employee or contractor creates or coauthors are agreed to be deemed "works made for hire," i.e., works for which the company will have the express and exclusive rights to copyright. Note, these provisions should be drafted with specificity to ensure that they are upheld. Thus, boilerplate clauses should be avoided and counsel should be consulted on drafting these provisions.
- An assignment-of-inventions covenant is similar to the works-made-for-hire covenant, except that it involves creations that would be subject to protection under patent, as opposed to copyright. Contractors or employees who are working for a company to help create new products should be subject to an assignment-of-inventions covenant.
- A confidentiality or nondisclosure covenant prevents an employee from disclosing or using the proprietary or confidential information of his or her former employer or that of its employer's customers. The information at issue need not constitute a "trade secret" per se; it must simply be confidential and not publicly available. This is a useful tool that creates a straightforward contract claim if an employee departs and begins using confidential information. An advantage of this sort of agreement is that the employer can define confidential information so that more things are included than would qualify as trade secrets under common law. In addition, such a signed agreement would prevent employees from pleading ignorance as an excuse for sharing confidential information.

Other Protective Covenants

There are additional noteworthy covenants that would address classic business considerations that may stoke desire to use non-competes, but would not likely be prohibited under any laws blocking non-competes. For example, nondisclosure, no-solicitation, and no-raid agreements, all of which do not limit an employee's ability to work in the field but do prevent an employee from causing harm to the former employer in a new job. These more limited agreements are usually more easily enforced than a true non-compete agreement. The following are some examples:

- A no-solicitation agreement prohibits the employee from going after the organization's customers or suppliers.

- A no-raid agreement prohibits the employee and a new employer from inducing other employees to leave the original employer to work for the new one, at least for some specific time after the former employee leaves employment. While employee raiding is not recognized as a cause of action in most states, employers may be able to pursue a remedy for the raiding of employees based on a claim of intentional interference with contractual relations or prospective economic advantage. These agreements tend to be viewed more favorably by the courts because they do not actually keep anyone from working.
- A conflict-of-interest clause generally requires employees to devote their entire productive time and full attention to the employer as a condition of employment. Many employers should also include a conflict-of-interest clause in their employee agreements.

- A "garden leave provision" is a relatively new import to the United States from the United Kingdom and other European countries. This provision requires an employee to give notice of his or her future departure.

Conclusion

Practitioners should keep in mind that the enforceability of restrictive covenants depends on state law and that the law varies by state, so it is always critical check the law in the individual state. But, generally speaking, the restrictive covenants described in this article have not been the subject of talks

about reform, or state laws to bar their use in agreements with employees or contracts. And, more importantly, the restrictive covenants above can have far more impact in protecting a business and its assets than a non-compete agreement would anyway. This is particularly true for early-stage, high-growth companies and those in the technology space, where the lifeblood of the business is its growth and protection of intellectual property.

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