Trade Secrets and the Banning of Non-Competes

BERMAN FINK VAN HORN P.C.

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Mary Guzman, CEO/Founder Crown Jewel® Insurance

Benjamin Fink, Shareholder Berman, Fink, Van Horn

About the Speakers

Mary Guzman
Founder/CEO
Crown Jewel® Insurance

Mary Guzman is an insurance industry veteran and pioneer. She has over 25 years experience advising clients on a myriad of risks to their businesses, most recently with a focus on all things related to technology, media, and intellectual property.

Mary is an industry trailblazer and disrupter. Mary was one of the first in the industry to develop a cyber insurance policy in 2000. She is a published author and speaker, having done over 125 speaking engagements on risks/solutions to threats arising from the convergence of all things intangible. She has been a government liaison as part of the DHS cybersecurity and insurance working group during the Obama administration. She is part of the Trade Secret committee of the American Intellectual Property Legal Association (AIPLA). She is also on the board of the USIPA and has been tasked with starting/Chairing the Trade Secret committee for them.

Benjamin Fink
Shareholder
Berman Fink Van Horn

Benjamin Fink is known for his work in noncompete, trade secret and competition-related disputes. A shareholder at Berman Fink Van Horn, Ben concentrates his practice in business and employment litigation.

Ben has been representing plaintiffs and defendants in disputes involving noncompete, non-solicitation of customers, non-recruitment of employees and non-disclosure/confidential information agreements for more than 25 years. He also has deep experience representing parties in disputes involving trade secrets, tortious interference with business and contractual relations, breach of fiduciary duty and/or duty of loyalty, unfair and deceptive trade practices, business defamation, trade name and trade dress infringement, Computer Systems Protection Act violations, Economic Espionage Act/Defend Trade Secrets Act claims, Electronic Communications Privacy Act claims, Computer Fraud and Abuse Act claims, Stored Communications Act claims and Telephone Consumer Protection Act (TCPA) claims. In this practice, he has successfully handled countless Temporary Restraining Order and Preliminary Injunction hearings.

The problem that needs solving:

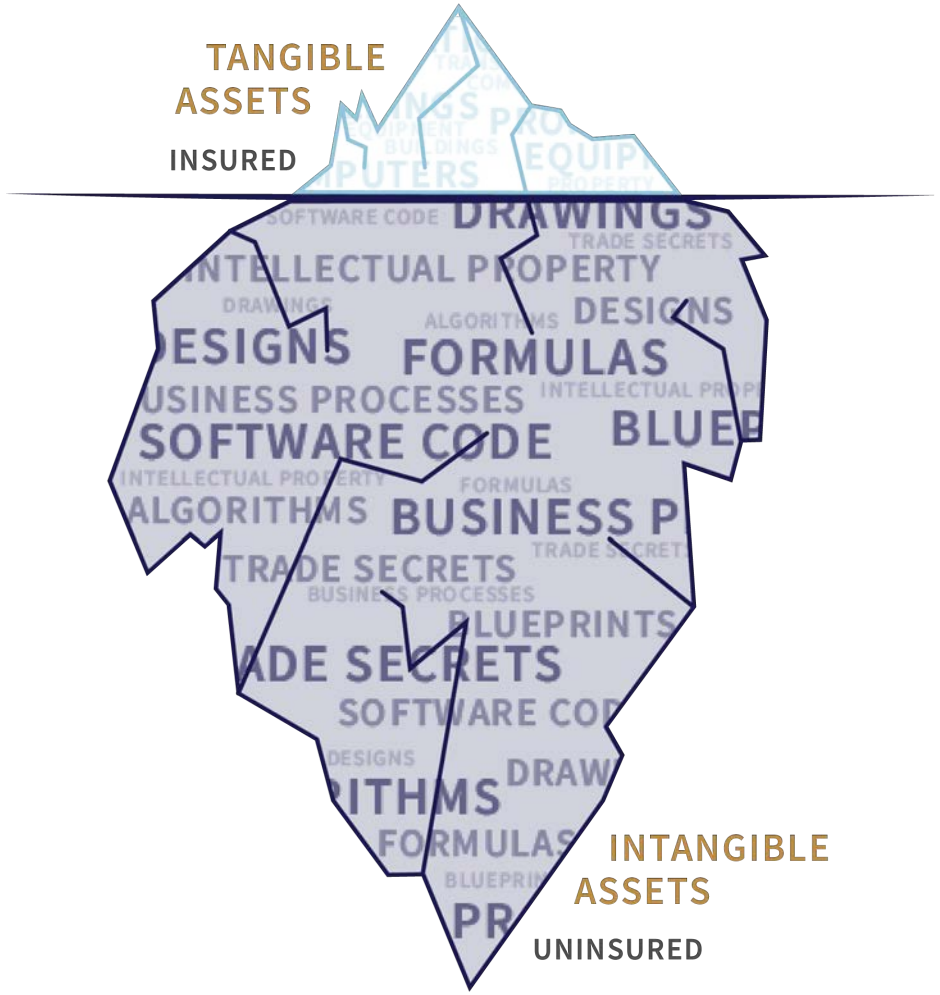
Intangible Assets represent **90% of the value of the S&P 500** today; that's over $43 Trillion!

Yet, there is *no first party "property" insurance* (including Cyber) covering the *value* of IP (intellectual property) assets. Today, companies can only insure the value of their tangible assets. And most of the loss prevention resources are spent protecting those same, far less valuable, assets.

The remedy available for theft or disclosue of a trade secret is limited strictly to a company's ability to prevail in litigious enforcement of their rights.

There is a significant cost and burden of proof upon the asset owner/litigant, and many do not have proper policies or proof necessary to win; therefore, billions of dollars worth of IP leaves US companies each year with little to no recourse for the creator/owner. This also leaves investors and other stakeholders vulnerable to unisured losses.

Why only trade secrets as an insured asset? Because trade secrets are the only one of the four types of IP that are valuable in large part because they are "secret". Therefore, we are able to trigger the insurance off of a loss of that secrecy. Once a trade secret is no longer secret, any further legal protection of that asset is vitiated (the value as a trade secret goes to $0!).



What is a Trade Secret?

Common definitions include:

- All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, that
- The owner thereof has taken "reasonable measures" to keep such information secret – and–
- The information derives independent economic value, actual or potential, from not being generally known, and not being readily ascertainable through "proper means"

In layman's terms, trade secrets are the "know-how" that provide many companies with their competitive advantage, their "crown jewels".

Trade secrets are the only "unregistered" Intellectual Property asset, therefore the details around them are not available to the public. Many of them are Critical Infrastructure assets, which means they are key to US national security and/or our economy. Financial algorithms, AI, blockchain, business processes are all examples of things that are (most likely) not patentable.

Most companies do not have a formal process for the risk management of these assets, and virtually no company has insurance for them, yet they make up Trillions of dollars in value to the US economy.

Six Factor Litmus Test

- The company is using “Reasonable Measures” to guard the secrecy of the information.
- The extent to which the information is known outside the company.
- The extent to which the information is known by employees and others involved in the company.
- The value of the information to the company and competitors.
- The amount of time, effort and money expended by the company in developing the information.
- The ease or difficulty with which the information could be properly acquired or duplicated by others.

What are Reasonable Measures?

- Depends?
- Best Practices would include:
  - NDAs with third parties given access
  - Non-compete agreements
  - Hiring/Firing
  - Exit Interviews/documentation
  - Training
  - Making those with access aware of the existence of a trade secret

What does the FTC's Proposed Rule Do?

MAIN ELEMENTS TO THE PROPOSED RULE:

1) Prohibits the use of non-competes in employment agreements at all levels, for all workers;
2) Explicitly defines "noncompete" as including *de facto* noncompete clauses;
3) Requires employers to notify their workers of the prohibition and to rescind any existing noncompete provisions in effect;
4) Supersedes state law on non-competes.

"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."

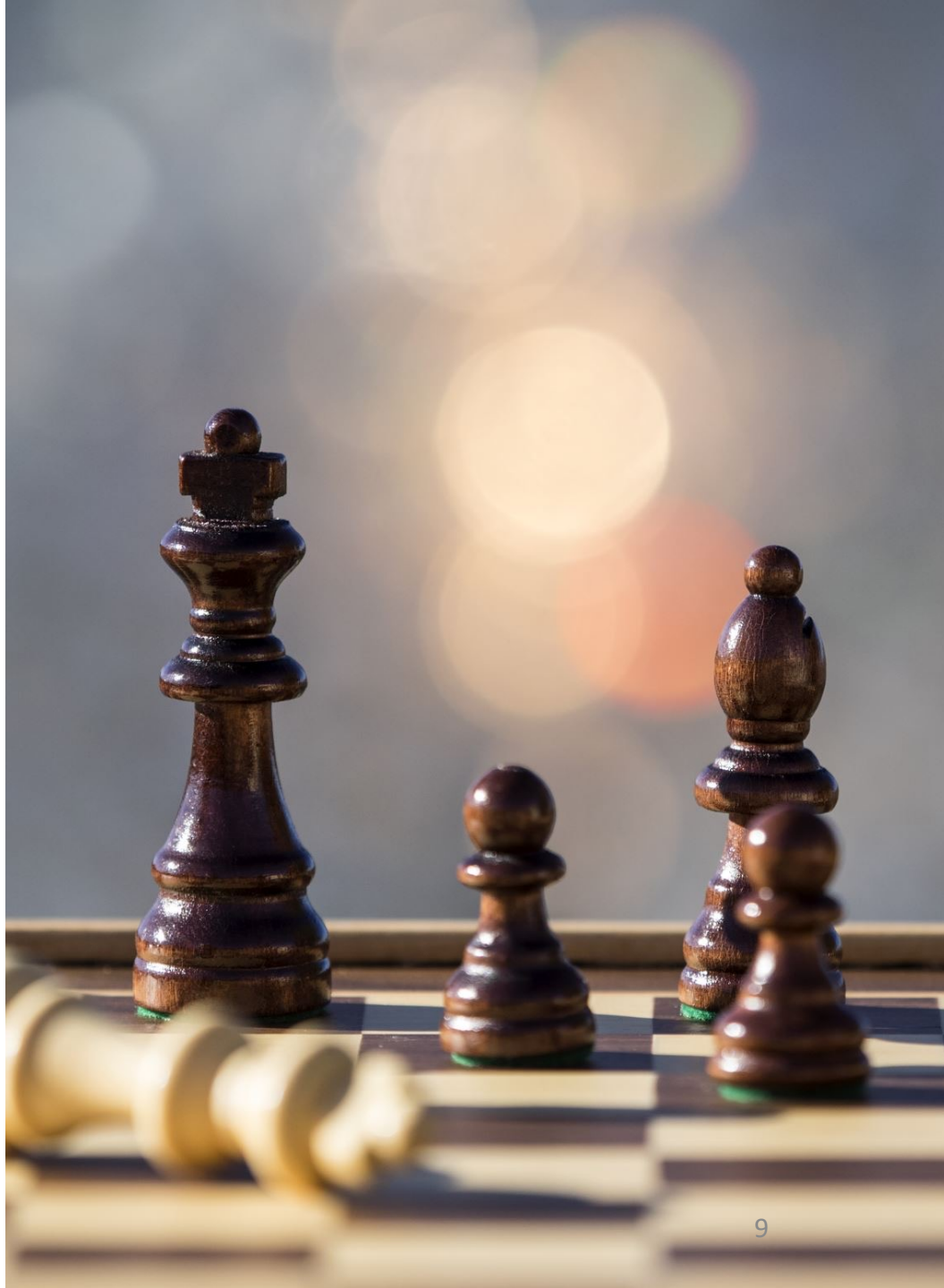
16 CFR § 910.2(a) (proposed).

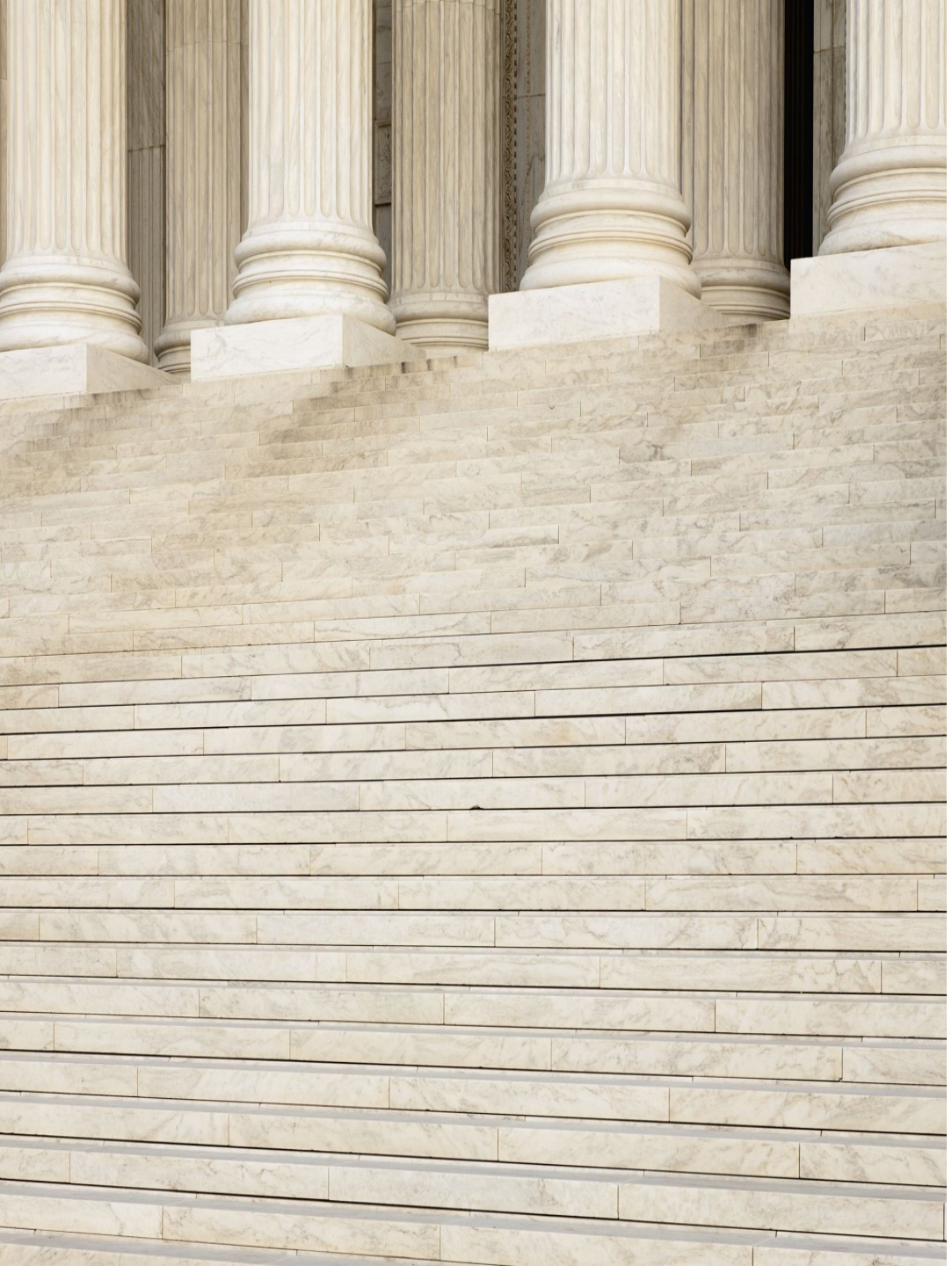
Federal Legislative Activity

- Two bipartisan bills have been reintroduced in this session
- The Workforce Mobility Act of 2023
- General ban on non-competes that is similar in scope to the FTC's rule
    - Exceptions: 1) non-competes entered into sellers of a business; 2) non-competes that are one-year or less in duration in severance agreements with senior executive officials in the context of a sale of a business; and 3) non-competes in the context of a partnership dissolution
- Freedom to Compete Act
    - Would prohibit employers from entering into or enforcing non-competes with a non-exempt employee under the FLSA.

Potential Challenges: Can the FTC do this?

- The Rule will be challenged in court
- Potential Grounds for Challenges:
- FTC's Statutory Authority to Regulate Noncompetes
  - Major Questions Doctrine
  - Non-Delegation Doctrine
- Jan. 5, 2023: U.S. Chamber of Commerce has promised to challenge the rule:
- "Today's actions by the Federal Trade Commission to outright ban noncompete clauses in all employer contracts is blatantly unlawful. Since the agency's creation over 100 years ago, Congress has never delegated the FTC anything close to the authority it would need to promulgate such a competition rule. The Chamber is confident that this unlawful action will not stand."
- Feb. 14, 2023: The House Judiciary Committee Chairman issued a letter to FTC chair claiming the rule exceeds the agency's authority

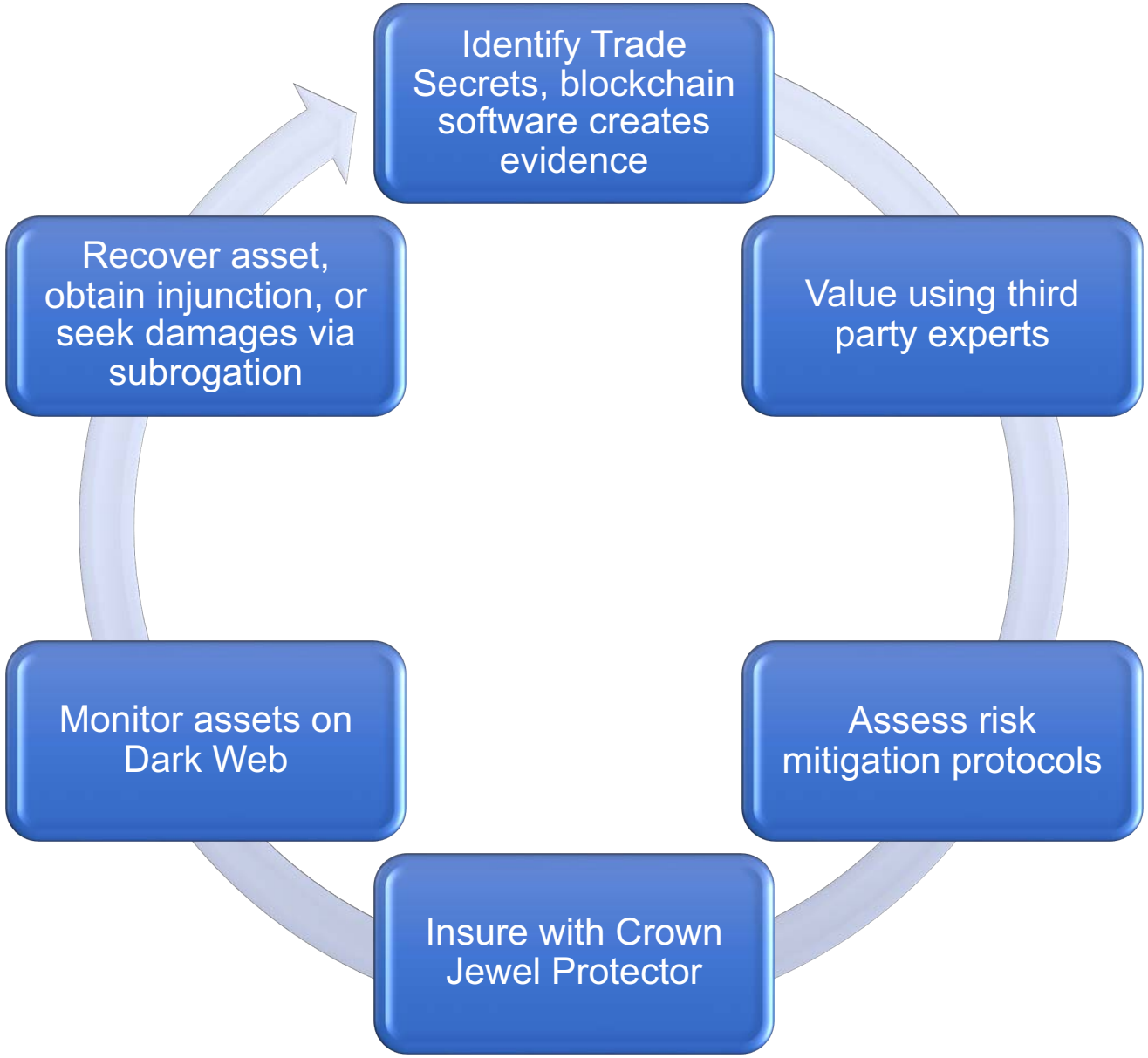




Inconsistent Policy Considerations?

- Also on January 5, 2023: the Protecting American Intellectual Property Act of 2022 was signed into law – strengthening trade secret protection from international bad actors.
- Designed to deter trade secret theft by foreign actors.
- Intellectual property, trade secrets and technological developments critical to US national security.
- Rule could weaken trade secret protections.
- FTC should consider national security implications.
- Would be consistent with the "whole of government" approach recognized in the 2021 Executive Order on Promoting Competition in the American Economy.

Solution: Crown Jewel® Protector Best Practices in TSARM



What would banning of non-competes do?

- Force companies to do what they should have been doing all along…
- Identify trade secrets with specificity up front
- Discern between "confidential information" and trade secrets
- Determine which employees will have access to the know-how that will likely become a trade secret
- Apply other risk management tactics to those assets (Trade Secret Asset Risk Management) and….only then
- Require NDAs of those employees that have access and name the trade secrets specifically. Otherwise run risk of "de facto" non-compete.

Questions?

Thank you!

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