Published on *The National Law Review* https://natlawreview.com

Trade Secrets, Non-Competes, and More!

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The range of tools that employers may use to protect company assets is narrowing — especially in North Carolina. While courts struggle to keep up with emerging technologies and the evolving workplace, employers of all sizes must keep up to speed with the latest developments in trade secrets, non-competes, and other key employment law issues. Recently, Nelson Mullins partners Greg McGuire, Phil Strach, and former partner Ariel Roberson (now Senior Counsel at BioCryst) gave a presentation to the Association of Corporate Counsel on these hot topics in employment law, moderated by partner Mark Stafford. The following are key highlights from that presentation.

Trade Secrets

Defining what constitutes trade secrets is not so easy. When defining and seeking to protect trade secrets, counsel should be aware of the differing views in federal and state forums regarding trade secret law. For example, the Federal Defend Trade Secrets Act, 18 U.S.C. § 1839, is generally broader than North Carolina's trade secret law. *See* N.C. Gen. Stat. § 66-152(3) (defining trade secret under North Carolina law). The Federal Act also provides a rare remedy whereby federal courts can seize items and materials without notice to the other side if certain explicit requirements are met. 18 U.S.C. § 1836(b)(2)(A)(ii); *see Mission Capital Advisors LLC v. Romaka*, 2016 WL 11517040 (S.D.N.Y. July 22, 2016). That said, actions for misappropriation of trade secrets are generally broader under state law.

In addition to different definitions of trade secrets, the practicalities of federal versus state court forums generally help guide procedural mechanisms for trade secrets litigation. Federal courts offer broader jurisdictions, more resources, and allow for applicability of rulings across several states. However, federal courts are more likely to scrutinize a plaintiff's claims, can be slower to come to a ruling than state court, and can be more expensive. Often, an appropriate middle ground forum is a specialized state court – in North Carolina, the North Carolina Business Court provides a more-sophisticated take on trade secrets cases with specialized rules and procedures applicable to complex business cases. The North Carolina Business Court has primary jurisdiction over trade

secret and non-compete cases, which make up a significant portion of the court's cases.

No matter the forum, a preliminary consideration in any trade secret case is proof of damages. Often, clients get caught up in the moment and want to go after a former employee on a suspected trade secrets claim for the principal of the matter. Counsel must assess what, if anything, was actually lost and what harm is actually occurring. Otherwise, a trade secret claim may not be merited under the facts. Clients should also put in place practical steps for protection of trade secrets on the front end, such as password protection and encryption of important documents, and maintaining confidentiality clauses with employees and third-party vendors.

Non-Competes

Non-competition provisions in employment contracts and other written agreements are much more difficult to enforce today than in the early 2000s—especially as to lower-level employees. *See Sterling Title Co. v. Martin*, 266 N.C. App. 593, 597, 831 S.E.2d 593, 596 (2019) ("It is well established that '[a] covenant in an employment agreement providing that an employee will not compete with his former employer is not viewed favorably in modern law.'") (internal quotation omitted). For example, courts disfavor overly broad definitions, and prohibitions must be targeted to the type of work that the employee actually preformed. *See NovaQuest Captial Mgmt., L.L.C. v. Bullard*, 498 F.Supp. 3d 820 (E.D.N.C. 2020) (refusing to enforce a world-wide territory); *Wells Fargo Ins. Servs. USA v. Link*, 2018 NCBC LEXIS 42 (N.C. Super. Ct. May 8, 2018). Another trend includes replacing geographic restrictions with customer-based restrictions; again, limiting any prohibitions to any customers that the employee actually had a relationship with. *See Sterling Title Co. v. Martin*, 266 N.C. App. 593, 598-600, 831 S.E.2d 627, (2019) ("Generally, '[w]here the alleged primary concern with respect to a covenant not to compete is the employee's knowledge of the customers, the territory should only be limited to areas in which the employee made contacts during the period of his employment.'" (quotation omitted)); *Bite Busters, LLC v. Burris*, 2021 NCBC 19, 17-30 (N.C. Super. Ct. Mar. 25, 2021).

Some states, like North Carolina, are increasingly likely to recognize alternative restrictions via a "Blue Pencil" Rule. Under Blue Pencil Rules, agreements may be drafted in the alternative—then, should a court find part of the provision unreasonably and overly restrictive, the court can strike the overly-broad restriction and leave the alternative provisions. *See Wells Fargo Ins. Servs. USA, Inc. v. Link*, 372 N.C. 260, 272–73, 827 S.E.2d 458, 469 (2019) (explaining that had the restrictions been in the alterative, with "or" instead of "and/or," then the less restrictive provision would be enforceable); *Nfh, Inc. v. Troutman*, 2019 N.C. Super. LEXIS 301, *33-34 (N.C. Super. Ct. Oct. 19, 2019) ("North Carolina has adopted a 'strict blue pencil doctrine' wherein a court cannot rewrite an unenforceable covenant; instead, to avoid scrapping an entire covenant, a Court may enforce the divisible parts of a covenant that are reasonable." (quoting *Bev. Sys. Of the Carolinas, LLC v. Assoc. Bev. Repair*, LLC, 368 N.C. 693, 699, 784 S.E.2d 457, 461 (2016)). Drafters should consider providing clearly stated alternative provisions, as well as confidential information covenants, choice of jurisdiction/venue/law clauses, and an employer's right to injunctive relief.

National Law Review, Volume XII, Number 14