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Beyond Trade Secrecy: Confidentiality Agreements that Act Like Noncompetes

ABSTRACT. There is a substantial literature on noncompete agreements and their adverse impact on employee mobility and innovation. But a far more common restraint in employment contracts has been underexplored: confidentiality agreements, sometimes called nondisclosure agreements (NDAs). A confidentiality agreement is not a blanket prohibition on competition. Rather, it is simply a promise not to use or disclose specific information. Confidentiality agreements encompass trade secrets, as defined by state and federal laws, but confidentiality agreements almost always go beyond trade secrecy, encompassing any information the employer imparted to the employee in confidence.

Despite widespread use, confidentiality agreements have received little attention. Many commentators view them as innocuous compared to noncompetes. However, confidentiality agreements that go beyond trade secrecy are not harmless. Leveraging an original dataset of confidentiality agreements in employment relationships disclosed in federal trade secret litigation, this Article argues that many of these agreements have the effect of noncompetes. They protect far more information than trade secret law does—including publicly available or generally known information, and information that trade secret law would classify as unprotectable "general knowledge, skill, and experience." They prohibit use as well as disclosure of the covered information. Most provide for injunctions in the event of breach, and nearly half provide for payment of attorney's fees and costs. And unlike most noncompetes, they almost never have geographic or temporal limitations.

The phenomenon of confidentiality agreements that "act like noncompetes" has not gone unnoticed. For example, the Federal Trade Commission (FTC) recently issued an unprecedented Notice of Proposed Rulemaking announcing its intention to effectively ban workplace noncompetes nationwide. The FTC also condemned what it calls "de facto non-compete clauses," including overly broad confidentiality agreements. The FTC's rulemaking has yet to move forward and is likely to be mired in legal challenges. Fortunately, this Article reveals that courts across the nation have already begun to invalidate confidentiality agreements that operate as de facto noncompetes. Regardless of whether the FTC ultimately succeeds in regulating these agreements, courts have the power and precedent to do so on their own.

Drawing on case law and prior proposals, this Article gives guidance going forward. It does not advocate for a blanket ban on confidentiality agreements. Rather, it contends that courts and other decision makers should treat confidentiality agreements that go beyond trade secrecy under a default rule of unenforceability, similar to how most jurisdictions treat noncompetes. The burden

should be on the employer to prove that such agreements are reasonably related to protecting legitimately secret information and that they do not function like noncompetes.

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ARTICLE CONTENTS

INTRODUCTION

Confidential information can be protected under multiple legal regimes.[1] In trade secret litigation—which typically involves a company suing a former employee for allegedly disclosing or using trade secret information—the most common state-law claims are for trade secret misappropriation and breach of contract.[2] The reach of trade secret claims is limited to information that qualifies as a trade secret under state or federal law.[3] The reach of contract claims, however, is not limited to the contours of trade secrecy. Rather, their scope is determined by the parties' agreement. Contracts that go "beyond trade secrecy" can thus expand owners' rights beyond those conferred by legislation.[4]

In the employment context, the most controversial such agreement is the noncompete. Noncompetes are contracts that prevent the recipient of information from competing following the exchange. If the defendant is an employee, the employee is typically prohibited from working at or starting a competing company in the same industry for a period of time.[5] Noncompetes have been the subject of substantial public attention and controversy.[6] They are per se

1. *See, e.g.*, Charles Tait Graves, *Trade Secrecy and Common Law Confidentiality: The Problem of Multiple Regimes*, *in* THE LAW AND THEORY OF TRADE SECRECY 77, 81-98 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011).

2. *See* 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, 143 (2018).

3. Since 2016, trade secret owners can bring federal claims under the Defend Trade Secrets Act (DTSA) and also state-law claims based primarily on the Uniform Trade Secrets Act (UTSA). The State of New York still uses the common law. *See, e.g.*, Elsevier Inc. v. Doctor Evidence, LLC, No. 17-cv-5540, 2018 WL 557906, at *4 (S.D.N.Y. Jan. 23, 2018) (applying both the DTSA and New York common law of trade secrets); *see also* Defend Trade Secrets Act of 2016, 18 U.S.C. §§ 1836-1839 (2018) (defining the standards and procedures for bringing a trade secret misappropriation claim under federal law); UNIF. TRADE SECRETS ACT § 1 (UNIF. L. COMM'N 1985) [hereinafter UTSA] (defining "trade secret" and the standards for misappropriation, as adopted by most states); Sharon K. Sandeen & Christopher B. Seaman, *Toward a Federal Jurisprudence of Trade Secret Law*, 32 BERKELEY TECH. L.J. 829, 834-43 (2017) (discussing the history leading up to the DTSA); Levine & Seaman, *supra* note 2, at 114, 119 (identifying the similarities and differences between DTSA and UTSA); John Cannan, *A (Mostly) Legislative History of the Defend Trade Secrets Act of 2016*, 109 LAW LIBR. J. 363, 367-68 (2017-2019) (describing the legislative history of the DTSA).

4. *See* Sharon K. Sandeen, *A Contract by Any Other Name Is Still a Contract: Examining the Effectiveness of Trade Secret Clauses to Protect Databases*, 45 IDEA 119, 122 (2005); Deepa Varadarajan, *The Trade Secret-Contract Interface*, 103 IOWA L. REV. 1543, 1575-76 (2018).

5. Christopher B. Seaman, *Noncompetes and Other Post-Employment Restraints on Competition: Empirical Evidence from Trade Secret Litigation*, 72 HASTINGS L.J. 1183, 1190-91 (2021).

6. *Id.* at 1194-97.

unenforceable in some states, including California.[7] In other states, noncompetes are treated as "restrictive covenants"[8] and "restraints on trade"[9] that must be "reasonable" in duration and geographic scope.[10]

The legal literature on noncompetes and their interaction with trade secret protection is vast.[11] But noncompetes are not the only form of covenant appearing in civil trade secret disputes that can be used to expand the rights of employers over information. Another far more common restraint in employment relationships has largely fallen under the radar: confidentiality agreements, sometimes called nondisclosure agreements (NDAs).[12] Unlike noncompetes, confidentiality agreements do not facially preclude an employee from competing or entering into an employment relationship. Instead, confidentiality

7. CAL. BUS. & PROF. CODE § 16600 (West 2009).

8. "Restrictive covenant" most commonly refers to a provision in an employment agreement that restricts an employee's ability to compete after they leave. Noncompetes are the classic example. The typical remedy when an employee breaches a noncompete is injunctive relief. Gillian Lester, *Restrictive Covenants, Employee Training, and the Limits of Transaction-Cost Analysis*, 76 IND. L.J. 49, 49 (2001).

9. "Restraint on trade" usually refers to a contractual provision that restrains others' ability to conduct business or enter transactions and that might potentially trigger liability under federal or state competition laws. *See* Herbert Hovenkamp, *The Rule of Reason*, 70 FLA. L. REV. 81, 85 (2018); *see also* Eric A. Posner, *The Antitrust Challenge to Covenants Not to Compete in Employment Contracts*, 83 ANTITRUST L.J. 165, 169-75 (2020) (noting that the common law has always regarded noncompetes as "restraints of trade" and that noncompetes may also be considered "restraints of trade" under the Sherman Act, 15 U.S.C. §§ 1-7.).

10. *See* TIMOTHY P. GLYNN, CHARLES A. SULLIVAN & RACHEL S. ARNOW-RICHMAN, EMPLOYMENT LAW: PRIVATE ORDERING AND ITS LIMITATIONS 475-502 (4th ed. 2019); *infra* Section II.B.

11. *See, e.g.*, Harlan M. Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625 (1960); 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 (1999); Rachel S. Arnow-Richman, *Bargaining for Loyalty in the Information Age: A Reconsideration of the Role of Substantive Fairness in Enforcing Employee Noncompetes*, 4 OR. L. REV. 1163 (2001); Katherine V. W. Stone, *The New Psychological Contract: Implications of the Changing Workplace for Labor and Employment Law*, 48 UCLA L. REV. 519, 577-92 (2001); Gillian Lester & Elizabeth Ryan, *Choice of Law and Employee Restrictive Covenants: An American Perspective*, 31 COMP. LAB. L. & POL'Y J. 389 (2010); Viva R. Moffat, *The Wrong Tool for the Job: The IP Problem with Noncompetition Agreements*, 52 WM. & MARY L. REV. 873 (2010); Orly Lobel, *The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property*, 93 TEX. L. REV. 789 (2015); Norman D. Bishara, Kenneth J. Martin & Randall S. Thomas, *An Empirical Analysis of Noncompetition Clauses and Other Restrictive Postemployment Covenants*, 68 VAND. L. REV. 1 (2015); Jonathan M. Barnett & Ted Sichelman, *The Case for Noncompetes*, 87 U. CHI. L. REV. 953 (2020); Seaman, *supra* note 5; *see also* Charles A. Sullivan, *Poaching*, 71 AM. U. L. REV. 649, 650-51 (2021) (assessing "no-poach" agreements between employers); Charles Tait Graves, *Questioning the Employee Non-Solicitation Covenant*, 55 LOY. L.A. L. REV. 959 (2022) (discussing agreements that prohibit former employees from soliciting current employees of their former employer).

12. The label of "nondisclosure agreement" is often misleading because these contracts typically prohibit unauthorized use as well as disclosure. *See infra* Section I.A.

agreements demand only that the recipient stay silent and not use, except as authorized, any information that the contract defines as "confidential."[13]

With some exceptions,[14] the general assumption has been that confidentiality agreements are innocuous compared to noncompetes. It is common to sign a confidentiality agreement before starting a new job.[15] Even vociferous critics of noncompetes tend to characterize confidentiality agreements as "narrower restraints" that might be used to avoid the blunt prohibition of a noncompete.[16] The common assumption is that, unlike a noncompete agreement, "a standalone NDA does not necessarily restrict an employee's mobility options" because the employee "can still move to a competitor"; the employee simply cannot ever disclose or, "theoretically," ever use, specific information obtained from their last

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13. ELIZABETH A. ROWE & SHARON K. SANDEEN, TRADE SECRET LAW: CASES AND MATERIALS 357-61 (3d ed. 2021); PETER S. MENELL, ROBERT P. MERGES, MARK A. LEMLEY & SHYAMKRISHNA BALGANESH, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE: 2023, 1 PERSPECTIVES, TRADE SECRETS & PATENTS 115-16 (2023); SHARON K. SANDEEN & DAVID S. LEVINE, INFORMATION LAW, GOVERNANCE, AND CYBERSECURITY 118-19 (2019); *see also* Robert Unikel, *Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841, 858 (1998) (arguing that contractual relations have been used to protect information that does not technically qualify as a trade secret).

14. *See* Orly Lobel, *Knowledge Pays: Reversing Information Flows and the Future of Pay Equity,* 120 COLUM. L. REV. 547, 567-88 (2020) (discussing confidentiality agreements that prohibit employees from discussing their pay, work conditions, or instances of sexual harassment); *see also* Debbie Berman, Andrew Vail & Licyau Wong, *Employment Agreements: Employers Need to Pay Attention to Growing Government Activism*, IPWATCHDOG, (Jan. 22, 2017, 7:00 AM), https://www.ipwatchdog.com/2017/01/22/employment-agreements-employers-government-activism [https://perma.cc/7QAK-X65T] ("Separately from non-compete agreements, confidentiality clauses also have come under attack by government agencies . . . . While each agency focuses on different policies . . . each have challenged confidentiality provision[s] claiming that they are not enforceable because they are not tied to a legitimate business purpose and/or violate statutory rights.").

15. *See, e.g.*, Bishara, Martin & Thomas, *supra* note 11, at 4, 20; *see also* Natarajan Balasubramanian, Evan Starr & Shotaro Yamaguchi, *Employment Restrictions on Resource Transferability and Value Appropriation from Employees* 4, 11-13 (Jan. 2023) (unpublished manuscript), https://ssrn.com/abstract=3814403 [https://perma.cc/PHL4-6YW3] (estimating, based on survey of over 33,000 individuals, that NDAs "are the most common" employment restriction, as compared to noncompetes, nonsolicitation, and nonrecruitment agreements, and that NDAs cover "approximately 57% of US workers" and are "used by approximately 88% of US firms"); Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTELL. PROP. 167, 189 (2005) ("Employees typically do not need to provide additional consideration for nondisclosure agreements, and unlike noncompetition agreements, there is generally little or no hesitation to signing a nondisclosure agreement.").

16. *See, e.g.*, Rachel Arnow-Richman, *The New Enforcement Regime: Revisiting the Law of Employee Competition (and the Scholarship of Professor Charles Sullivan) with 2020 Vision*, 50 SETON HALL L. REV. 1223, 1227-28 n.19 (2020).

employer.[17] Courts across jurisdictions routinely give confidentiality agreements "more favorable treatment" than noncompetes.[18] And confidentiality agreements are not typically subject to the same limitations that are applied to noncompetes.[19] For instance, some states' statutory regimes for noncompetes explicitly do not apply to confidentiality agreements.[20] Overall, courts tend to apply a default rule of enforceability.[21]

Recently, some scholars and practitioners have begun to question the widespread assumption that confidentiality agreements in employment relationships are mostly harmless. They suggest confidentiality agreements might raise many of the same issues as noncompetes by effectively preventing employees from leaving and taking new jobs or starting their own companies.[22] Moreover,

17. Bishara, Martin & Thomas, *supra* note 11, at 20; *see also* GLYNN, SULLIVAN & ARNOW-RICHMAN, *supra* note 10, at 494-95 (discussing nondisclosure agreements as "narrower restraints"); Moffat, *supra* note 11, at 905 (describing nondisclosure agreements as "reinforc[ing]" common-law duties of confidentiality and loyalty); Christopher J. Sullivan & Justin A. Ritter, *Banning Noncompetes in Virginia*, 57 U. RICH. L. REV. 235, 267 (2022) (identifying that nondisclosure agreements were historically upheld to protect "legitimate business interests" and trade secrets).

18. *See infra* note 173.

19. *See infra* Section II.B.1.

20. For example, Massachusetts's recent noncompete law specifically says that it does not apply to "nondisclosure or confidentiality agreements." MASS. GEN. LAWS ch. 149, § 24L (2018).

21. *See* Lobel, *supra* note 11, at 791 ("Nondisclosure agreements span beyond traditionally defined secrets under trade secrecy laws and are routinely enforced by courts."); *see also infra* Section II.B.1 (explaining the default rule of enforceability).

22. *See* Rachel Arnow-Richman, Gretchen Carlson, Orly Lobel, Julie Roginsky, Jodi Short & Evan Starr, *Supporting Market Accountability, Workplace Equity, and Fair Competition by Reining in Non-Disclosure Agreements*, DAY ONE PROJECT (Jan. 2022), https://ssrn.com/abstract=4022812 [https://perma.cc/ZS6N-PEKG]; *see also* Charles Tait Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. L. 39, 82 (2007) (arguing that the benefits to adopting "a limited, objective definition of trade secrecy far exceed the interest of employers in making all valuable information learned on the job protectable"); Chris Montville, Note, *Reforming the Law of Proprietary Information*, 56 DUKE L.J. 1159, 1159-60 (2007) (arguing that "the legal rules that control the flow of knowledge" between companies and employees can "excessively restrict" employee mobility and discussing different approaches in the courts to enforceability of nondisclosure agreements); Steven M. Kayman & Brian Kim, *Can Mere Confidential Information Be Legally Protected?*, N.Y. L.J. (Dec. 14, 2018, 2:35 PM), https://www.law.com/newyorklawjournal/2018/12/14/just-how-secret-is-it-can-mere-confidential-information-be-legally-protected [https://perma.cc/SRB5-RFYG] (discussing limits on employment contracts that restrict use or disclosure of "mere confidential information" and arguing, for example, that neither "publicly available information" nor "general knowledge, skill and experience" can be designated "confidential" by contract); Richard F. Dole, Jr., *Limitations upon the Enforceability of an Employee's Covenant Not to Disclose and Not to Use Confidential Business Information without Authorization*, 23 UCLA J.L. & TECH. 1, 11-14 (2019) (explaining how some

because confidentiality agreements are not scrutinized by courts in the same way as noncompetes, they can theoretically last for the employee's entire lifetime.[23]

This has real implications for workers. For example, a securities trader was recently bound by confidentiality provisions in his employment agreement that required him to "keep all Confidential Information in strictest confidence and trust" during and after his employment. The agreement defined "Confidential Information" to include—among other things—all "information, in whatever form, used or usable in," "or relating to," "analyzing, executing, trading and/or hedging in securities."[24] The agreement had no time limit. Its effect was to essentially prevent the employee "from trading in securities at all . . . for the remainder of his life."[25]

Some policymakers are recognizing that broadly drafted confidentiality agreements can operate like noncompetes. For example, in 2021, the Uniform Law Commission (ULC) approved a Uniform Restrictive Employment Agreement Act (UREAA) that characterizes confidentiality agreements as "restrictive covenants" that are presumptively unenforceable unless they meet certain requirements.[26] A few states, including Colorado, have passed legislation specifically addressing confidentiality agreements.[27] Most recently, the Federal Trade Commission (FTC) has entered the scene. In an unprecedented Notice of Proposed Rulemaking issued in January 2023, the FTC notified stakeholders and the public of its intention to effectively ban noncompete agreements between employers and workers nationwide.[28] The FTC announced that it would apply a "functional test" to determine what constitutes a noncompete. This test will

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employer covenants act as noncompetes); Rex N. Alley, Note, *Business Information and Nondisclosure Agreements: A Public Policy Framework*, 116 Nw. U. L. Rev. 817, 821 (2021) (discussing judicial approaches to protecting "confidential business information" through NDAs and giving a framework for assessing enforceability of such NDAs); *see also* Tait Graves, *Nonpublic Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes Under the Uniform Trade Secrets Act*, 10 UCLA J.L. & Tech. 1, 6 (2006) (critiquing noncontractual protection for confidential information that is not a trade secret).

23. *See, e.g.*, Camilla A. Hrdy & Mark A. Lemley, *Abandoning Trade Secrets*, 73 Stan. L. Rev. 1, 61 (2021) ("Some courts have enforced confidentiality agreements against departing employees even if they are accused only of taking non–trade secret information, and even if those agreements last, on their face, 'for all time.'").

24. *See* Brown v. TGS Mgmt. Co., 57 Cal. App. 5th 303, 316-17 (Ct. App. 2020), *as modified on denial of reh'g* (Nov. 12, 2020). We discuss more details of this provision in Section II.B.2.

25. *Id.* at 316 (quoting appellant in *Brown v. TGS Mgmt. Co.*).

26. *See infra* note 266.

27. *See infra* note 267.

28. Non-Compete Clause Rule, 88 Fed. Reg. 3482 (proposed Jan. 19, 2023) (to be codified at 16 C.F.R. pt. 910).

encompass "non-disclosure agreements" that "are so unusually broad in scope that they function" as "de facto non-compete clauses."[29]

So far, these concerns have occurred in an information vacuum because confidentiality agreements are not typically available for public access. Ironically, some confidentiality provisions specifically encompass the agreement itself.[30] If academics, policymakers, and other interested parties do not know what these agreements look like, they cannot realistically assess their enforceability. As Orly Lobel aptly put it, these agreements are "enforceability TBD."[31]

This Article is the first to provide a comprehensive picture of what confidentiality agreements look like when they are enforced in trade secret disputes. Leveraging a unique dataset of employment contracts publicly disclosed in federal trade secret cases brought in U.S. district courts, this Article identifies and analyzes confidentiality agreements that have been asserted in court alongside trade secrets.

To briefly summarize our results,[32] we find that many confidentiality agreements generate such sweeping confidentiality obligations that it would be virtually impossible to work in the same field—let alone compete with a former employer—without breaching them. In other words, they have the functional effect of noncompetes. Several findings are particularly notable. First, the confidentiality agreements in our dataset protect far more information than trade secret law does. Most refer to "confidential" or "proprietary" information rather than limiting their scope to trade secrets. Second, many of the agreements encompass publicly available or generally known information, and nearly all of them implicitly extend to employees' "general knowledge, skill, and experience."[33] Third, these agreements are not just "nondisclosure" agreements because almost all of them prohibit *use* as well as disclosure of the covered information. Fourth, these contracts provide for injunctions in the event of breach—meaning that a worker can potentially be ordered, among other things, to stop using the covered

29. *Id.* at 3482, 3507.

30. *See, e.g.*, Exhibit 1, Employment Agreement Between Syneron, Inc. and Erik Dowell § 5(b), Candela Corp. v. Dowell, No. 17-cv-10479 (D. Mass. Mar. 22, 2017) ("The term 'Proprietary Information' means any and all information or data, in any form . . . including but not limited to . . . the terms of this Agreement."), ECF No. 1-1.

31. Orly Lobel, *Enforceability TBD: From Status to Contract in Intellectual Property Law*, 96 B.U. L. Rev. 869, 869 (2016); *see also* Arnow-Richman et al., *supra* note 22, at 9 ("[I]nformation on the prevalence and content of NDAs is still relatively scarce. Employers are not currently required to disclose their NDAs to any outside party or government regulator. Employers are also free to prohibit employees who sign NDAs from even revealing that the agreement exists.").

32. *See infra* Section III.B.

33. *See infra* note 91.

information. Nearly half provide for payment of attorneys' fees and costs. Finally, unlike noncompetes, they almost never have geographic or temporal limitations. They are usually written to last forever.[34]

If these provisions were unenforceable, the stakes would be lower. Employees who are sued for breaching these agreements would at least have the chance to win in court. But the historical wisdom among courts and commentators has been that confidentiality agreements are typically enforceable. Courts do not scrutinize them to the same degree as noncompetes.[35] This is a serious problem. Although U.S. states have different approaches to noncompetes, all states subject noncompetes to at least some judicial scrutiny.[36] If confidentiality agreements are given a free pass, then employers can simply get around legal restrictions on noncompetes by placing workers under perpetual, noncompete-like confidentiality obligations. Society would experience the negative effects discussed in noncompete law—restrictions on worker autonomy, competition, knowledge sharing, and cumulative innovation—but without any oversight at all.[37]

Fortunately, this Article reveals that this may be changing. There is a substantial body of recent case law from across the country in which courts have questioned the enforceability of confidentiality agreements that reach too far beyond trade secrecy.[38] Most courts agree in dicta that confidentiality agreements can protect information that does not qualify as a trade secret.[39] But when faced with cases in which plaintiffs try to protect non-trade-secret information—in particular, public or generally known information, or a worker's general knowledge, skill, and experience—many courts do not enforce these agreements. Instead, they find them void for public policy or in direct contravention of the jurisdiction's laws regulating noncompetes.[40] Although California is the leader in refusing to enforce confidentiality agreements that act as de facto noncompetes,[41] it is not alone. Even in jurisdictions that enforce reasonably tailored noncompetes, courts have begun striking down confidentiality agreements in employment relationships that go too far beyond trade secrecy, finding them to be

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34. *See infra* Section III.B.

35. *See infra* Section II.B.1.

36. *See infra* note 173.

37. *See infra* Section I.D.

38. *See, e.g.*, Alley, *supra* note 22, at 831-51 (documenting various approaches to enforcing nondisclosure agreements); Dole, *supra* note 22, at 11-14 (discussing an important Illinois case invalidating a nondisclosure agreement that operated in effect as a noncompete).

39. *See infra* Section II.B.1.

40. *See infra* Section II.B.3.

41. Several courts have held that de facto noncompetes are void under the California statute banning noncompetes. *See infra* Section II.B.3.a.

violations of state statutes or common-law rules restricting enforcement of noncompetes.[42]

This case law is already having an impact, and it will be extremely important in a world in which policymakers do not or cannot address overreaching confidentiality agreements. For example, if the FTC fails in its attempt to police de facto noncompetes—which seems possible[43]—our research reveals that some courts are already doing so. Other courts can and should follow suit. Employers, in turn, will have to conform to these decisions, assuming they want their contracts to be enforceable. On the other hand, if the FTC succeeds, this case law will still be relevant because it will help regulators determine what it means for a confidentiality agreement to act like a noncompete. As we will show, one of the most important indicators is that the agreement goes too far beyond trade secrecy, hindering workers' ability to use or share information that the law broadly intends to remain free.

This case law is evolving and imperfect. Not all courts scrutinize confidentiality agreements. The "enforceability default" is still the norm. Courts lack a uniform framework for evaluating their enforceability. To help courts resolve these issues, we provide a framework that is guided by principles articulated in recent case law and informed by our empirical results. In short, we argue that courts should treat confidentiality agreements in the workplace[44] under a default rule of unenforceability whenever they go beyond trade secrecy. Employers should have the burden to prove such agreements are reasonably related to the goal of preserving secrecy and do not have the effect of an unexpected noncompete agreement.[45]

Under this standard, many of the agreements reviewed in this Article would be unenforceable. But those that are tailored to protecting trade secrets or

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42. *See infra* Section II.B.3.

43. Final action on the Federal Trade Commission's (FTC) proposed rulemaking has apparently been delayed until 2024, and it is nearly certain to face a legal challenge if enacted in its current form. Dan Papscun, *FTC Expected to Vote in 2024 on Rule to Ban Noncompete Clauses*, BLOOMBERG L. (May 10, 2023, 4:32 PM), https://news.bloomberglaw.com/antitrust/ftc-expected-to-vote-in-2024-on-rule-to-ban-noncompete-clauses [https://perma.cc/H6LT-LPBU]; Suzanne P. Clark, Opinion, *The Chamber of Commerce Will Fight the FTC*, WALL ST. J. (Jan. 22, 2023, 3:29 PM), https://www.wsj.com/articles/chamber-of-commerce-will-fight-ftc-lina-khan-noncompete-agreements-free-markets-overregulation-authority-11674410656 [https://perma.cc/2GTZ-TW7F]. The Uniform Restrictive Employment Agreement Act (UREAA), for its part, has not yet been adopted by any state. *See infra* Section II.C.1.

44. Importantly, this proposed framework is not targeted at "business-to-business" agreements or licensing contracts entered between businesses. It is limited to confidentiality agreements that appear in employment contracts and that affect individual workers. *See infra* Section I.A. Courts often draw a similar distinction when assessing enforceability. *See, e.g.*, *infra* note 215.

45. *See infra* Part IV.

legitimately secret[46] information could survive. A confidentiality agreement cannot, under our framework, cover public or generally known information. And it cannot create unexpected noncompete obligations—for instance, by preventing a worker from using their general knowledge, skill, and experience. We also discuss how courts should judge the duration of these agreements. Rather than a strict time limit, we advocate for a functional end date that looks to whether the information is still being kept secret. Employers should not be able to enforce a so-called "nondisclosure" obligation if the information has, in fact, already been disclosed.

The remainder of this Article proceeds as follows. Part I explains what confidentiality agreements are and how they can be used to protect information beyond trade secrecy. It also identifies the policy concerns implicated by confidentiality agreements that protect more than trade secret law allows.

Part II addresses the question of enforceability. It explains the commonly held view that confidentiality agreements are not subject to the same regulatory frameworks as noncompetes. But it then reveals case law from across jurisdictions in which courts have struck down confidentiality agreements that resemble noncompetes in effect. This Part also discusses recent legislation at the state level and recent proposals from the ULC and the FTC—all of which suggests that attitudes towards confidentiality agreements are rapidly changing.

Part III reveals the results of a unique empirical study that sheds light on what confidentiality agreements actually look like in practice. It shows that these agreements almost always protect more than trade secrets, and that many have the potential to act like noncompetes. Furthermore, it finds that very few of these agreements contain the durational or geographic limitations courts typically require for noncompetes. This Part also explains the study's methodology and addresses its limitations.

Part IV provides a way forward for courts and policymakers. It explains the types of information that cannot be protected in workplace confidentiality agreements, as well as the types of information that can be. It assesses how courts should treat confidentiality agreements that go beyond trade secrecy. Ultimately, this Article does not advocate for a blanket ban on confidentiality agreements that go beyond trade secrecy. Rather, it provides a framework that courts can use to determine whether, and under what circumstances, confidentiality agreements that go beyond trade secrecy should be enforced. Our proposal aligns with the way some courts already assess these questions, and with the general direction taken by the FTC and the ULC, but it also clarifies the analysis and highlights the key issues that need to be considered.

46. We use the term "legitimately secret" to encompass non-trade-secret information that is nonetheless not publicly available or generally known in the industry. *See infra* Section IV.A.

Finally, the Conclusion advocates for balance. Companies should be able to use confidentiality agreements to protect real secrets, but they should not be able to place illegitimate and unnecessary restrictions on workers that were never bargained for. Otherwise, firms can simply circumvent long-established legal limits on noncompetes by using confidentiality agreements.

I. CONFIDENTIALITY AGREEMENTS BEYOND TRADE SECRECY

This Part explains how confidentiality agreements found in employment contracts can be used to expand trade secret protection and why this can be problematic as a matter of policy.

A. *Confidentiality Agreements Generally*

A confidentiality agreement is a contract based on a promise to refrain from using or disclosing certain "confidential" information. A wide range of actors enter into confidentiality agreements, including employers, employees, independent contractors, business partners, vendors, and customers – essentially anyone who seeks to share or receive information in confidence.[47]

This Article focuses on confidentiality agreements entered during an employment relationship. This includes confidentiality agreements entered between employers and employees, as well as those entered between employers and individual workers in an independent contractor relationship.[48] These are considered "unilateral" confidentiality agreements because information is ostensibly being disclosed in only one direction – from employer to employee. In contrast, "mutual" confidentiality agreements between sophisticated businesses – sometimes called "business-to-business" or "B2B" agreements – involve both parties exchanging valuable information, and both sides are typically

47. Sources providing guidance on drafting confidentiality agreements and discussion of specific terms include HEATHER MEEKER, A PRIMER ON INTELLECTUAL PROPERTY LICENSING 68-69 (2d ed. 2004); JAMES H. POOLEY, SECRETS: MANAGING INFORMATION ASSETS IN THE AGE OF CYBER-ESPIONAGE 105-20, 261-64 (2015); R. MARK HALLIGAN & RICHARD F. WEYAND, TRADE SECRETS ASSET MANAGEMENT: A GUIDE TO INFORMATION ASSET MANAGEMENT INCLUDING RICO AND BLOCKCHAIN 278 (2018); and Yan Song & Adam L.K. Philipp, *Don't Lose Your Licensable IP, NDAs and Zero Knowledge Proofs*, 39 LICENSING J. 1, 2-4 (2019).

48. By using the term "employee," we do not mean to exclude individual workers who are technically classified as independent contractors. This approach aligns with the FTC's proposal to ban de facto noncompetes between an employer and a "worker." *See infra* notes 273-275 and accompanying text. Notably, the DTSA's whistleblower immunity provision also applies on its face to independent contractors – specifically, to "any individual performing work as a contractor or consultant for an employer." 18 U.S.C.§ 1833(b)(4) (2018).

represented by independent legal counsel.[49] Confidentiality agreements in the employment context tend to be drafted in an atmosphere of unequal bargaining power, and the confidentiality provisions that emerge tend to be more favorable to employers than agreements negotiated between businesses. The obligations fall on individuals, rather than on companies.[50] Thus, there is good reason to treat them distinctly.

Confidentiality agreements are extremely common in the workplace. While comprehensive data is lacking and usage varies by industry,[51] it is assumed that confidentiality agreements "are widely and increasingly used in employment contracts of all types."[52] For example, a study by Natarajan Balasubramanian, Evan Starr, and Shotaro Yamaguchi estimates that "[a]pproximately 57% of employees in the United States in 2017 were definitely or probably bound" by a confidentiality agreement, "with 8.5% not knowing if they were bound."[53]

Confidentiality agreements are often referred to as "nondisclosure agreements" or "NDAs."[54] But this is a misleading term because it implies that "nondisclosure" is the only restriction. In fact, confidentiality agreements typically come with *two* major prohibitions: (1) do not disclose the information to others, and (2) do not use the information on behalf of yourself or anyone other than your former employer.[55] An example from our dataset is a so-called "Non-Disclosure" provision in an employment agreement signed by an employee for

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49. POOLEY, *supra* note 47, at 115-17; Song & Philipp, *supra* note 47, at 2-3.

50. *See, e.g.*, Arnow-Richman, *supra* note 11, at 1166; *see also* Mark A. Lemley, *Terms of Use*, 91 MINN. L. REV. 459, 476 (2006) (discussing enforceability of "shrink wrap" licenses and noting that courts seem to distinguish "between enforceability against businesses and enforceability against individuals"). *But see* Timothy E. Murphy, *Memorizing Trade Secrets*, 57 U. RICH. L. REV. 533, 576 n.202 (2023) (asserting that business-to-business agreements may generate confidentiality obligations for individual employees as well because "most business-to-business non-disclosure agreements include a requirement that the confidential information will not be disclosed to any employees that have not undertaken a confidentiality obligation at least as protective as the terms of the NDA").

51. Arnow-Richman et al., *supra* note 22, at 3.

52. Bishara, Martin & Thomas, *supra* note 11, at 4, 20.

53. Balasubramanian, Starr & Yamaguchi, *supra* note 15, at 13; *see also* Arnow-Richman et al, *supra* note 22, at 3 (noting, referring to this and other studies, that "researchers estimate that between 33% and 57% of U.S. workers are constrained by an NDA or similar mechanism").

54. *See, e.g.*, Balasubramanian, Starr & Yamaguchi, *supra* note 15, at 1; Arnow-Richman et al., *supra* note 22, at 2.

55. *See, e.g.*, RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 41 cmt. d (AM. L. INST. 1995) ("[Trade secret owners] often seek protection against unauthorized use or disclosure through a contract with the recipient of a disclosure . . . [containing] a general promise to refrain from disclosing or using any confidential information acquired within the context of a particular relationship or transaction, or a promise to refrain from using or disclosing particular information specified in the agreement.").

Molnlycke Health Care U.S. Despite its "Non-Disclosure" label, the provision permanently obligates the employee to "maintain in confidence" *and* "not, directly or indirectly, make any use of" any "knowledge and information" acquired during employment and pertaining to the employer's activities, "which are secret, confidential or in which Employer has proprietary rights."[56]

A prohibition on use as well as disclosure makes sense from the perspective of information security. It can be extremely hard to protect information against disclosure if the employer does not also limit the information's unauthorized use.[57] But this additional obligation can materially affect an employee's freedom to operate after leaving the job. Confidentiality agreements that prohibit use do more than prevent deliberate sharing; they prevent a former employee from making "use"[58] of covered information – even if that information inevitably remains in their memory,[59] and even if the use is inadvertent.[60] Thus, the term "confidentiality agreement" is a far more accurate descriptor of the obligations these contracts create. They prevent disclosure *and* use of covered information.

56. Exhibit 1, Employee Agreement § 1, Molnlycke Health Care US, LLC v. Taggart, No. 16-CV-01229 (N.D. Ga. Apr. 15, 2016), ECF No. 1-1.

57. *See* Camilla A. Hrdy, *Should Dissimilar Uses of Trade Secrets Be Actionable?*, 167 U. PA. L. REV. ONLINE 78, 85 (2019) ("[I]t is virtually impossible to identify uses of trade secrets that do *not* threaten disclosure of the original trade secret.").

58. "Use," in the trade secret context, has been defined broadly as "any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant . . . . 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.'" Oakwood Lab'ys LLC v. Thanoo, 999 F.3d 892, 909 (3d Cir. 2021) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 (AM. L. INST. 1995)). *But see* Charles Tait Graves, *The Law of Negative Knowledge: A Critique*, 15 TEX. INTELL. PROP. L.J. 387, 410-11 (2007) (arguing that actionable use of trade secrets must be carefully distinguished from mere possession).

59. Timothy E. Murphy, *How Can a Departing Employee Misappropriate Their Own Creative Outputs?*, 66 VILL. L. REV. 529, 535, 546 (2021) (discussing situations where trade secret law restricts information contained in one's memory); Murphy, *supra* note 50, at 533 (discussing how courts in trade secret cases assess remembered information as opposed to information embodied in tangible form).

60. Courts can and do grant injunctions when use or disclosure is "threatened" or "inevitable," despite the employee's best efforts not to use or disclose the information. *See, e.g.*, PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1271-72 (7th Cir. 1995) (upholding a preliminary injunction for a trade secret misappropriation under the theory that an employee would "inevitably disclose" time-sensitive secrets related to their former employer Pepsi's sports beverage if they went to work for the direct competitor Quaker Oats, and holding that for "the same reasons" the preliminary injunction was warranted based on the employee's "inevitable" "breach of his confidentiality agreement should he begin working at Quaker"); *see also* 18 U.S.C. § 1839(5) (2018) (defining misappropriation); UTSA § 1 (UNIF. L. COMM'N 1985) (making "threatened" misappropriation actionable).

B. *The Interaction Between Confidentiality Agreements and Trade Secrecy*

Confidentiality agreements frequently appear in trade secret lawsuits brought against current or former employees. The basic strategy is to bring two claims—both a trade secret claim and a breach-of-contract claim based on a routine confidentiality provision the employee signed when starting the job.[61] The result is that even if a court expressly finds there are no trade secrets, the court may still find the employee liable for breach of contract.

One might think the protections afforded by trade secret law and confidentiality agreements are redundant. At a high level, the categories of information that qualify as trade secrets are similar to the categories of information that confidentiality agreements typically delineate as confidential. Generally speaking, the categories of information that can be protected as trade secrets—under the federal Defend Trade Secrets Act (DTSA) and the Uniform Trade Secrets Act (UTSA)—are not dramatically different from those that might be delineated as confidential by contract.[62] As Roger Milgrim and Eric Bensen explain in their treatise, "[t]he kind of information that can be a trade secret is virtually unlimited. Unlike patent and copyright, there is no 'category' limitation on trade secret eligibility."[63] Courts have protected a wide variety of trade secrets in industries across the economy, ranging from simple formulas,[64] to complex "formulas and

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61. *See, e.g.*, 1 ROGER M. MILGRIM & ERIC E. BENSEN, MILGRIM ON TRADE SECRETS § 4.01 (LexisNexis 2023) ("Most written employment agreements contain a provision imposing a duty upon the employee not, during or after the employment, to use or disclose the enterprise's confidential information in any unauthorized way."); Alan J. Tracey, *The Contract in the Trade Secret Ballroom—A Forgotten Dance Partner?*, 16 TEX. INTELL. PROP. L.J. 47, 69 (2007) (discussing the prevalence of "dual cause of action" in which a contract is used "as the basis for both a trade secret claim and a breach-of-contract action").

62. The "information" potentially protectable as a trade secret encompasses "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, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing." 18 U.S.C. § 1839(3) (2018). This list is broader in some ways than the list of information protectable under the UTSA. *See* UTSA § 1(4) (UNIF. L. COMM'N 1985) (providing that potentially protectable "information," can include "a formula, pattern, compilation, program, device, method, technique, or process").

63. *See* MILGRIM & BENSEN, *supra* note 61, at § 1.09 (identifying "Examples of Matter That Has or Has Not Been Found to be Trade Secrets").

64. Courts continue to invoke Coca-Cola's canonical soft-drink formula in dicta when discussing trade secret protection under the DTSA. *See, e.g.*, Brightview Grp., LP v. Teeters, 441 F. Supp. 3d 115, 134 (D. Md. 2020) ("If a person leaves the Coca-Cola Company after having memorized the formula for Coca-Cola[], that does not give him license to transmit the prized soft drink's recipe to PepsiCo."). *But see This American Life: Original Recipe*, NAT'L PUB. RADIO, at processes,"[65] to computer source code,[66] to a vast array of business information—not least of which is a customer list.[67]

Confidentiality agreements and trade secret law also impose very similar obligations on employees who receive information in the workplace. Confidentiality agreements typically prevent workers from disclosing or using confidential information without authorization. Trade secret law prohibits "misappropriation," which includes—though is not limited to—"disclosure or use of a trade secret" "by a person who knows or has reason to know" that the trade secret was "acquired under circumstances *giving rise to a duty to maintain the secrecy . . . or limit the use of the trade secret*."[68] The easiest way to establish such a duty is through an express confidentiality agreement that a worker signed during their employment.[69] All else being equal, the worker's actions in this scenario both

03:33 (Feb. 11, 2011), https://www.thisamericanlife.org/427/original-recipe [https://perma.cc/JL2X-3WGK] (revealing that the original recipe for Coca-Cola may have been publicly disclosed in a 1979 newspaper article).

65. Sonrai Sys., LLC v. Waste Connections, Inc., No. 21-CV-02575, 2023 WL 2266147, at *6-7 (N.D. Ill. Feb. 28, 2023) (involving a complaint that adequately pled that "formulas and processes" for the development of radio-frequency-identification technology that was "only known by a select few" of plaintiff's employees was a trade secret under DTSA and the Illinois Trade Secrets Act).

66. Syntel Sterling Best Shores Mauritius Ltd. v. TriZetto Grp., Inc., 68 F.4th 792, 793 (2d Cir. 2023) (upholding a jury verdict finding, in relevant part, that certain software code, scripts, and framework for updating a database constituted trade secrets under DTSA and New York law). *But see* Sonia K. Katyal, *The Paradox of Source Code Secrecy*, 104 CORNELL L. REV. 1183, 1229 (2019) (suggesting that a lot of source code is drawn from public sources and might not qualify as a trade secret if challenged).

67. *See, e.g.*, Albert's Organics, Inc. v. Holzman, 445 F. Supp. 3d 463, 473 (N.D. Cal. 2020) (involving a plaintiff who adequately pled a trade secret under the DTSA and the California UTSA "with regard to its customer information" after identifying the customer information in detail and alleging, among other things, "that it developed, maintained, and safeguarded its customer information at great expense").

68. 18 U.S.C. § 1839(5)(B)(ii)(II) (2018) (emphasis added). The law also illegalizes acquiring a trade secret by "improper means," as well as using or disclosing a trade secret that was acquired by "improper means." *Id.* §§ 1839(5)-(6). The "improper means" form of misappropriation is far rarer. *See* Sharon K. Sandeen, *Out of Thin Air: Trade Secrets, Cybersecurity, and the Wrongful Acquisition Tort*, 19 MINN. J.L. SCI. & TECH. 373, 381-86 (2018) (observing that allegations of misappropriation through use of "improper means" are much less common than allegations involving breach of a duty); *cf.* E. I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1014-16 (5th Cir. 1970) (holding that aerial photography of a plant under construction was an "improper means" of obtaining plaintiff's trade secret, and a violation of Texas common law, even though the photographers were not in a confidential relationship with the plaintiff and had no duty to maintain the secrecy of the plaintiff's trade secrets).

69. A duty to maintain secrecy can be created through an express contract but can also be implied. *See generally* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41(b) (AM. L. INST. 1995)

breach the confidentiality agreement and constitute trade secret misappropriation. There is significant overlap in these two causes of action.

Lastly, the policies that justify enforcing confidentiality agreements as a matter of contract law are very similar to the policies that justify trade secret law. Both trade secret law and confidentiality agreements facilitate the efficient sharing of sensitive information with workers.[70] Both, in theory, give employers incentives to invest in development of new information by making it easier to keep the information secret while exploiting it productively.[71]

However, the two legal regimes are fundamentally different. As Mark A. Lemley has observed, trade secrecy is generally stronger than contract law in two important respects. First, whereas contracts typically[72] do not apply "between strangers," trade secret claims can be brought against parties outside privity who did not sign a contract with the plaintiff. For example, misappropriation of a trade secret includes acquiring the trade secret from someone else who owed a duty to the trade secret owner to maintain the secrecy of the information—even if the acquirer owed no such duty.[73] Second, trade secret law provides much stronger remedies than contract law, including greater damages, more reliable options to obtain attorney's fees, and even potential criminal penalties.[74] Injunctive relief in trade secret law is particularly robust because prevailing plaintiffs can obtain injunctions that continue to be in effect even after the secret has been

(noting that one way to establish a duty of confidence for trade secret law purposes is to disclose a trade secret to a "person under circumstances in which . . . the person knew or had reason to know that the disclosure was intended to be in confidence").

70. *See* Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 335-36 (2008) (arguing that trade secret law encourages "disclosure of information that companies might otherwise be reluctant to share" and facilitates bargained-for transfers of information); Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQ. INTELL. PROP. L. REV. 1, 26-28 (2007) (arguing that trade secret law encourages efficient sharing and reduces wasteful expenditures on "self-help"); *see also* Sharon K. Sandeen, *A Typology of Disclosure,* 54 AKRON L. REV. 657, 662 (2020) (arguing that trade secret law is better described as encouraging "sharing" of information because the word "disclosure" typically refers to a loss of trade secret status).

71. The incentive-to-develop justification for both regimes is speculative and hard to prove. *See* Michael Risch, *Trade Secret Law and Information Development Incentives*, *in* THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 152 (Rochelle C. Dreyfuss & Katherine S. Sandburg eds., 2011).

72. Crucially, as we discuss, *see infra* notes 148-150 and accompanying text, contracts *can* be used as the basis for tortious-interference claims against third parties, and these claims are not always preempted by trade secret law.

73. *See* 18 U.S.C. § 1839(5)(B)(ii)(III) (2018).

74. Lemley, *supra* note 70, at 323-24; Tracey, *supra* note 61, at 70-79 (discussing the advantages of trade secret versus contract claims—including greater damages, attorney's fees, and no requirement of privity).

disclosed to the public.[75] For these reasons, plaintiffs who bring both contract and trade secret claims will generally seek for the trade secret claim to dominate over the contract claim. They want to obtain trade secret remedies rather than just contract remedies.[76]

This comparison helps justify trade-secrecy protection on top of contract protection.[77] But it does not explain why firms would continue to use *contracts* alongside trade secrecy. Noncompetes are a special case. They literally prevent competition for a set period of time. They go beyond what trade secret law, on its own, can do.[78] So noncompetes are a natural way to "bolster [trade secret] protection."[79] It is far less obvious, however, why plain-vanilla confidentiality agreements play such a prominent role in trade secret litigation. Given that trade secrets are now robustly protected under both state and federal law, why would companies continue to bring claims for breach of contract based on the same set of facts and the same types of information?

There are several important reasons. First, at a very practical level, confidentiality agreements can put employees and others on notice of what is to be kept secret.[80] Second, confidentiality agreements can help prove a trade-secrecy claim by demonstrating the owner took "reasonable measures" to preserve the

75. This is sometimes called a "head start" injunction. *See* UTSA § 2(a) (UNIF. L. COMM'N 1985) (stating that "[u]pon application to the court, an injunction shall be terminated" once the trade secret has been disclosed, but that the injunction "may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation").

76. *See* Tracey, *supra* note 61, at 70-79 (discussing contract and trade secret remedies and asserting there are "substantial advantages in focusing on the trade secret misappropriation case" because the "plaintiff in a trade secret case is not only entitled to receive all of the damages typically awarded in a breach-of-contract case, but she also benefits from the possibility of receiving punitive damages, attorney fees, and a broad construction of 'actual losses'").

77. *But see* Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241 (1998) (critiquing trade secret law and arguing that other legal regimes, especially contract law, can perform the same functions).

78. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269-72 (7th Cir. 1995) (upholding preliminary injunction based on trade secret misappropriation under an "inevitable disclosure" theory); *See also supra* note 60 (discussing trade secret law's inevitable-disclosure doctrine).

79. *See* Alan J. Meese, *Don't Abolish Employee Noncompete Agreements*, 57 WAKE FOREST L. REV. 631, 688 (2022); *see also* Stone, *supra* note 11, at 584 (discussing whether there is an "independent role" for noncompete agreements alongside trade secrecy).

80. *See* Rowe, *supra* note 15, at 189 (explaining that confidentiality agreements are "helpful" for "delineating the confidentiality expectations between the employer and employee"); *see also* Deepa Varadarajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357, 357 (2017) (arguing that the primary purpose of trade secret law's reasonable-secrecy precautions requirement "should be to notify a relevant audience (employees and other business partners) about the existence and boundaries of claimed trade secrets and thus reduce information costs for that audience").

information's secrecy,[81] and that the recipient had an express contractual duty to maintain the information's secrecy.[82] Third, and most relevant for this Article, confidentiality agreements can provide additional protection in cases where the trade secret claim fails. We refer to this type of contract as a confidentiality agreement that goes *beyond trade secrecy*.[83]

C. *How and Why Confidentiality Agreements Can Go Beyond Trade Secrecy*

Trade secret laws theoretically sweep in vast quantities of information. But trade secret subject matter, just like copyright, patent, and trademark subject matter, is subject to limits.[84] There are several limitations on what can be a trade secret, which do not necessarily apply to information protected by contract.[85]

First, a trade secret cannot be "generally known" or "readily ascertainable through proper means."[86] Second, the holder of a trade secret must have taken "reasonable measures" to retain the secrecy of the information.[87] These secrecy measures need not be perfect, but they must be "reasonable" in light of the costs

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81. As discussed further below, taking reasonable measures to protect the trade secret is required to win on a trade secret claim. *See* Rowe, *supra* note 15, at 189; Tracey, *supra* note 61, at 65-69; Varadarajan, *supra* note 4, at 1543, 1556-59.

82. As mentioned above, such a duty is often required for proving misappropriation. *See* 18 U.S.C. § 1839(5)(B)(ii)(II)-(III) (2018); UTSA § 1(2) (UNIF. L. COMM'N 1985).

83. Deepa Varadarajan has referred to this, more broadly, as the "evasive" function of contracts because they evade trade secrecy's limits. *See* Varadarajan, *supra* note 4, at 1563-64.

84. *See* MENELL, MERGES, LEMLEY & BALGANESH, *supra* note 13, at 37-40 (comparing the subject matter criterion for all four intellectual-property regimes). *See generally* Eric E. Johnson, *Trade Secret Subject Matter*, 33 HAMLINE L. REV. 545 (2010) (discussing what sets trade secrets apart from other secrets arising in the business world).

85. The DTSA sets out these limitations in its definition of "trade secret," stating that "information" can only qualify as a trade secret if: "(A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information . . . ." 18 U.S.C. § 1839(3) (2018); *see also* UTSA § 1 (UNIF. L. COMM'N 1985) (stating very similar limitations).

86. 18 U.S.C. § 1839(3) (2018); UTSA § 1 (UNIF. L. COMM'N 1985). *See infra* notes 386-398 and accompanying text (discussing the "readily ascertainable through proper means" concept).

87. 18 U.S.C. § 1839(3)(A) (2018); UTSA § 1(4)(ii) (UNIF. L. COMM'N 1985). *See generally* Richard F. Dole, Jr., *The Contours of American Trade Secret Law: What Is and What Isn't Protectable as a Trade Secret*, 19 SMU SCI. & TECH. L. REV. 89 (2016) [hereinafter Dole, *The Contours of American Trade Secret Law*] (comparing various definitions of trade secret with the UTSA); Richard F. Dole, Jr., *The Contract Exception to the Uniform Trade Secrets Act and Its Implications for the Federal Defend Trade Secrets Act*, 34 SANTA CLARA HIGH TECH. L.J. 362, 376 (2018) [hereinafter Dole, *Contract Exception*] (describing the exceptions in the DTSA and UTSA for restrictive employment covenants).

and benefits of taking precautions.[88] Third, a trade secret must derive "independent economic value" from secrecy.[89] This means the information must impart an actual or "potential" economic advantage over others due to the fact that it is being kept secret.[90] Finally, courts in the United States have long held that an employee's "general knowledge, skill, and experience" cannot be a trade secret, and that "an employer generally may not inhibit the manner in which an employee uses his or her knowledge, skill, and experience—even if these were acquired during employment."[91]

A confidentiality agreement, in contrast, can ensure that information is protected under contract law, irrespective of the information's trade-secrecy status. As Sharon K. Sandeen and David S. Levine have written, "one of the potential benefits of NDAs is that they enable an information owner, within limits, to protect by contract information that is not protected by other areas of law."[92] The scope of the covered information can be defined in the contract itself rather than by statute.

The term "confidential" does not have to be strictly limited to trade secrets.[93] Under the common law, the phrase "confidential information" typically refers to

88. *See* Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179-80 (7th Cir. 1991).

89. 18 U.S.C. § 1839(3)(B) (2018); UTSA § 1(4)(i) (UNIF. L. COMM'N 1985).

90. *See* Camilla A. Hrdy, *The Value in Secrecy*, 91 FORDHAM L. REV. 557, 559, 568-76 (2022) (explaining various components of the modern independent-economic-value requirement).

91. SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244, 1267 (3d Cir. 1985) (Adams, J., concurring) (citations omitted); *see also* Camilla A. Hrdy, *The General Knowledge, Skill, and Experience Paradox*, 60 B.C. L. REV. 2409, 2419-23, 2430-33 (2019) (discussing trade secret law's exclusion of general knowledge, skill and experience and arguing that even though this is not expressly laid out in the statutory text, courts and commentators continue to recognize its existence); Kurt M. Saunders & Nina Golden, *Skill or Secret?—The Line Between Trade Secrets and Employee General Skills and Knowledge*, 15 N.Y.U. J.L. & BUS. 61, 83-84 (2018) (discussing how courts distinguish general skills and knowledge from protectable trade secrets); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (AM. L. INST. 1995) ("Information that forms the general skill, knowledge, training, and experience of an employee cannot be claimed as a trade secret by a former employer even when the information is directly attributable to an investment of resources by the employer in the employee.").

92. SANDEEN & LEVINE, *supra* note 13, at 118.

93. There are some cases in which courts held, as a matter of contract interpretation, that the term "confidential" refers only to trade secrets because this was what the contractual language implied. For example, an older line of common-law cases suggested "that generic language as used in [a confidentiality] agreement simply refers to common-law trade secret protection." Custard Ins. Adjusters, Inc. v. Nardi, No. CV980061967S, 2000 WL 562318, at *46 n.5 (Conn. Super. Ct. Apr. 20, 2000); *see also* Take it Away, Inc. v. Home Depot, Inc., No. 05-12484, 2009 WL 458552, at *8 (D. Mass. Feb. 6, 2009) (rejecting plaintiff's argument that "confidential proprietary information" in a nondisclosure agreement "has a broader meaning than trade secrets alone" and stating that "the case law [suggests] that trade secrets and confidential information that is "of a secret or confidential character," but without limiting this only to trade secrets.[94] Instead, the *sine qua non* for information to be treated as confidential under the common law is that it "is communicated between parties in a so-called 'confidential relationship.'"[95] Under the common law of agency, for example, employees who receive information in confidence from their employers generally have a duty not to disclose or use that information for their own benefit—regardless of whether it meets the definition of a trade secret.[96]

If confidentiality agreements were drafted to cover only trade secrets, then they would be innocuous. There is nothing inherently wrong with shoring up a trade secret claim through a contract. At worst, a breach-of-contract claim based on a confidentiality agreement that encompasses only trade secrets is simply redundant alongside trade secret law. However, firms have strong incentives to draft confidentiality agreements that go beyond trade secrecy. The first reason is risk hedging. If the plaintiff loses on trade secrecy, because the court finds the information is not a trade secret, then the plaintiff can at least still win on breach of contract.[97] The second reason is the economic advantage that a company can obtain from claiming ownership to more (versus less) information. A company

business information 'are essentially identical concepts'" (citations omitted)), *aff'd*, 374 F. App'x 47 (1st Cir. 2010). This is not the norm, however. In fact, below we explain that Massachusetts's newly adopted trade secret statute suggests that courts can, but *need not*, limit contractually-defined confidential information to the definition of a trade secret. *See infra* notes 271-272 and accompanying text.

94. In fact, the *Restatement (First) of Torts*—which was the most comprehensive source for trade secret law under the common law—delineated a separate cause of action for non-trade-secret confidential information. *See* RESTATEMENT (FIRST) OF TORTS § 759 cmt. b (AM. L. INST. 1939) (discussing a common-law cause of action based on information that is of a "secret or confidential character"). We discuss this cause of action further in Part II.

95. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (AM. L. INST. 1995) ("Courts frequently recognize an obligation to refrain from the unauthorized use or disclosure of information that is communicated between parties in a so-called 'confidential relationship.'").

96. Each of the *Restatements of Agency* define this duty slightly differently. *See* RESTATEMENT (FIRST) OF AGENCY § 396 (AM. L. INST. 1933) (indicating that an agent has a duty not to use or disclose "trade secrets" or "other similar confidential matters given to him only for the principal's use or acquired by the agent in violation of duty"); RESTATEMENT (SECOND) OF AGENCY § 395 (AM. L. INST. 1958) (indicating that an agent has a duty "not to use or to communicate information confidentially given him by the principal," so long as it is not "a matter of general knowledge"); RESTATEMENT (THIRD) OF AGENCY § 8.05 (AM. L. INST. 2006) (indicating an agent has a duty "not to use or communicate confidential information of the principal for the agent's own purposes or those of a third party").

97. The common wisdom is that a "strong [nondisclosure] agreement" is the best way to provide "enough breadth that the company's business interests are fully protected." Shamir Patel, Olaoluwaposi O. Oshinowo & Martha G. Vázquez, *Noncompetes: How Employers Can Protect Their Business Interests*, ACC DOCKET (Dec. 13, 2021), https://docket.acc.com/noncompetes-how-employers-can-protect-their-business-interests [https://perma.cc/56LT-PZ78].

is unlikely to limit its ownership of valuable information only to trade secrets if contract law empowers it to claim more.[98] Thus, companies might logically choose to use contract law to skirt both copyright and trade secret subject-matter prohibitions.

Lawyers understand that they can protect more information under contracts than through trade secrecy.[99] As one well-known law firm put it in a blog post, "a contract should not be viewed as a mere alternative to trade secret protection. Properly crafted, and if necessary, properly litigated, a contract can both strengthen and expand the reach of a trade secret claim."[100] As we demonstrate in Part III, most confidentiality agreements are indeed drafted on their face to go beyond trade secrecy. They utilize all-encompassing words like "confidential" or "proprietary." Some agreements do not use the magic words "trade secrets" at all, concertedly avoiding that legal limitation.[101] Many do not have any exclusions, even for public or generally known information.[102]

A typical example from our dataset is a confidentiality provision signed by an employee of Core Laboratories. It provides, among other things, that the employee recognizes that, during the course of their employment, they "may acquire knowledge about the Company" that is "of a private or confidential nature, such as, technical or research information, pricing or cost information, or the like . . . . Upon termination of my employment, whether voluntary or involuntary, I shall not use or disclose any confidential or private information of the Company . . . ."[103] This agreement is representative of the agreements in our

98. *See, e.g.*, Norman D. Bishara & Michelle Westermann-Behaylo, *The Law and Ethics of Restrictions on an Employee's Post-Employment Mobility*, 49 AM. BUS. L.J. 1, 13 (2012) (noting that through contract, "employers will . . . make efforts to protect . . . proprietary information that may not rise to the level of a protectable trade secret, such as a client list").

99. Some plaintiffs might even elect to skirt trade secrecy altogether and bring *only* a breach-of-contract claim. To quote one practitioner, "given the challenges of proving the information is a trade secret, some plaintiffs may prefer filing the straightforward breach-of-contract action [alone] . . . . This strategy could potentially allow the proponent to skirt some of the evidentiary requirements of each claim." Tracey, *supra* note 61, at 70.

100. Douglas R. Nemec, *Trade Secrets Take Center Stage, and Contracts Play a Lead Role*, SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP (Jan. 17, 2019), https://www.skadden.com/insights/publications/2019/01/2019-insights/trade-secrets-take-center-stage [https://perma.cc/SD49-HEVJ].

101. For example, the Molnlycke Health Care confidentiality provision previously mentioned refers to "knowledge and information" acquired during employment "pertaining to Employer and the Employer's activities, which are secret, confidential or in which Employer has proprietary rights." Employee Agreement, *supra* note 56. The specific phrase "trade secrets" is never used. *Id.*

102. *See infra* note 323 and accompanying text.

103. Exhibit A, Employee Agreement at ¶¶ 6, 9, Core Lab'ys LLP v. Amspec, No. 16-CV-00526 (S.D. Ala. Oct. 7, 2016), ECF No. 1-1.

dataset along several dimensions. It is not limited to trade secrets, referring instead to "knowledge" that is of a "private or confidential nature."[104] It prohibits both disclosure and use of the information. And it has no geographic or time limit.[105] If enforced as written, this agreement would indefinitely prohibit the employee who signed it from sharing or using public or generally known information[106] and information that constitutes the employee's general knowledge, skill, and experience.[107]

Some confidentiality agreements are even worse than this: They force the employee to *stipulate* that all covered information constitutes "trade secrets." For example, a confidentiality provision from our dataset, signed by an employee of Roth Staffing Companies, permanently prohibits the employee from disclosing or using, without written authorization after departure, "any confidential information of any kind, nature, or description concerning any matters affecting or relating to the business of the Company."[108] It also requires the employee to "stipulate that . . . the same are important, material, and confidential trade secrets."[109] Another confidentiality agreement from our dataset, signed by an employee of Frank N. Magid Associates, Inc., declares that the employee is contractually bound not to disclose information for "so long as the Company in its sole judgment considers the information to be a trade secret and/or confidential information."[110] In other words, the employer gets to unilaterally decide whether the information is a trade secret or otherwise protectable. These are highly problematic provisions because trade secrets are defined by federal statute or state law. Trade secrets cannot be created by contract or by the employer's "sole judgment" that information is a trade secret.[111]

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104. *Id.* at ¶ 6.

105. This agreement is atypical in another sense because it does not stipulate remedies. For instance, it does not expressly state that the employer is entitled to an injunction upon breach. *See infra* Section III.B (noting that almost 80% of confidentiality agreements in our dataset expressly authorized injunctive relief for breach).

106. *See* Camilla A. Hrdy & Sharon K. Sandeen, *The Trade Secrecy Standard for Patent Prior Art*, 70 AM. U. L. REV. 1269, 1286-99 (2021) (comparing the "generally known" standard with patent law's "available to the public" standard).

107. *See* Hrdy, *supra* note 91, at 2419-23 (discussing the general knowledge, skill, and experience exclusion and explaining how it differs from the "not generally known" concept).

108. Complaint at 6, Roth Staffing Cos., L.P. v. Fisher, No. 16-cv-01831 (D. Colo. July 19, 2016).

109. *Id.*

110. Exhibit 1, Employment Agreement at ¶ 6, Frank N. Magid Assocs., Inc. v. Marrs, No. 16-CV-00198 (N.D. Iowa Nov. 29, 2016), ECF No. 1-2.

111. *See, e.g.*, Capricorn Mgmt. Sys., Inc. v. Gov't Emps. Ins. Co., No. 15-CV-2926, 2019 WL 5694256, at *17 (E.D.N.Y. July 22, 2019) (applying Maryland law and rejecting plaintiff's argument that the "unambiguous language of the NDA itself established that Capricorn's

D. Identifying the Policy Problems

Many view confidentiality agreements as relatively harmless compared to noncompetes.[112] However, when confidentiality agreements in employment contracts go too far beyond trade secrecy, they raise many of the same policy concerns as noncompetes. These policy concerns are even more acute because confidentiality agreements typically apply everywhere and last for all time.[113]

To be clear, confidentiality agreements that claim beyond trade secrecy are not always problematic. As discussed in Part IV, there are some categories of non-trade-secret information that we believe can be protected through a standard confidentiality provision. However, the strategy of claiming beyond trade secrecy is problematic when the contract captures information that is public or generally known in the industry,[114] or information that constitutes an employee's general knowledge, skill, and experience.[115] When confidentiality agreements capture these types of information—when they claim too far beyond trade secrecy—this creates several public policy concerns.

1. Employee Mobility

First, confidentiality agreements that claim too far beyond trade secrecy can prevent employees from using information they need to work in their field after they leave. As one federal judge colorfully put it: Is a departing employee "really supposed to get a frontal lobotomy before they go to the next job?"[116] This prospect is especially frightening if this "frontal lobotomy" can last forever.[117]

Trade secret law addresses the law's impact on employee mobility in various ways. Most obviously, trade secret law cannot protect workers' general

operations, technology or systems shall be treated by the parties as trade secrets" because "a trade secret is defined by law—in this case, the DTSA and [Maryland UTSA]—not by contract" (internal quotations omitted)).

112. *See supra* notes 14-20 and accompanying text.

113. *See, e.g.*, Dole, *supra* note 22, at 8-9 (noting that the norm is not to require specific durational or geographical limitations for confidentiality agreements as opposed to noncompetes); *see also* Alley, *supra* note 22, at 821 ("[S]ome courts enforce the contracts entirely as written.").

114. *See, e.g.*, Hrdy & Sandeen, *supra* note 106, at 1275 (discussing the policy, present in both patent and trade secret law, that people should not be "deprived of what is already freely available to them").

115. Hrdy, *supra* note 91, at 2419-23.

116. *See* Daisuke Wakabayashi, *Secrets or Knowledge? Uber-Waymo Trial Tests Silicon Valley Culture*, N.Y. TIMES (Jan. 30, 2018), https://www.nytimes.com/2018/01/30/technology/waymo-uber-lawsuit.html [https://perma.cc/Z99A-RVCM] (quoting Judge William Alsup).

117. As discussed below, the results from our dataset show that very few of these agreements have a set duration. *See infra* Section III.B.

knowledge, skill, and experience, even if this information was acquired at the expense of their former employer.[118] If confidentiality agreements can protect this same information without oversight, this creates an obvious problem for employee mobility.[119] If it is very hard to work in one's chosen field without breaching a confidentiality agreement signed at a prior job, this can create a chilling effect, even if it turns out later that the contract was unenforceable.[120] The risk-averse employee may have no choice but to forego certain jobs and opportunities.

2. *Competition Effects*

Second, confidentiality agreements that claim too far beyond trade secrecy can constrain competition between employers and their former employees. Competition is supposed to be the "baseline. . . . Departures from free competition are 'carefully crafted bargain[s].'"[121] Because noncompetes are by their nature anticompetitive, laws and regulations have developed to ensure noncompetes do not unduly restrict workers' ability to compete with their former employers. These rules, which we discuss in detail in Section II.B, apply even when workers deliberately and knowingly contract away their ability to compete.[122]

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118. *See* Hrdy, *supra* note 91, at 2433, 2440-43 (discussing various ways trade secret law addresses concerns about employee mobility); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (AM L. INST. 1995) ("The distinction between trade secrets and general skill, knowledge, training, and experience is intended to achieve a reasonable balance between the protection of confidential information and the mobility of employees."); *see also* Van Prods. Co. v. Gen. Welding & Fabricating Co., 213 A.2d 769, 776 (Pa. 1965) (holding that an employee is entitled to take their experience, knowledge, and skill gained through employment); Microbiological Rsch. Corp. v. Muna, 625 P.2d 690, 697 (Utah 1981) (same); SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244, 1267 (3d Cir. 1985) (Adams, J., concurring) (suggesting the same rationale).

119. *See generally* ORLY LOBEL, TALENT WANTS TO BE FREE: WHY WE SHOULD LEARN TO LOVE LEAKS, RAIDS, AND FREE RIDING (2013) (describing how companies use trade secrets and contracts like noncompetes to restrain movement of talent).

120. Recent psychology literature suggests people may abide by contractual obligations, even if those contracts are patently unenforceable, because they wrongly assume the contracts are enforceable. *See* Meirav Furth-Matzkin & Roseanna Sommers, *Consumer Psychology and the Problem of Fine-Print Fraud*, 72 STAN. L. REV. 503, 503, 516 (2020).

121. Rochelle Cooper Dreyfuss, *Trade Secrets: How Well Should We Be Allowed to Hide Them? The Economic Espionage Act of 1996*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1, 42 (1998) (quoting Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 150 (1989)).

122. *See* Stewart E. Sterk, *Restraints on Alienation of Human Capital*, 79 VA. L. REV. 383, 385 (1993) (discussing noncompete law as an example of a restraint on alienation); *see also* Sharon K.

In light of the historic wisdom that noncompetes are anticompetitive restraints on trade that need to be regulated in some fashion,[123] it would be extremely concerning for competition if employers could achieve the same anticompetitive effects using plain-vanilla confidentiality agreements. Employers could effectively bypass noncompete law altogether using broadly drafted confidentiality agreements to impose noncompete-style restraints that would not survive scrutiny in a noncompete case and that are unlimited in time or geography.

3. *Broader Effects on Innovation and Economic Growth*

Like noncompetes, confidentiality agreements that claim too far beyond trade secrecy can also have broader impacts on innovation and economic growth.[124] Economies do better when companies and individuals are innovating, coming up with new ideas and new ways of doing things.[125] Providing incentives to innovate is the major reason nations adopt intellectual-property laws as well as other innovation incentives like grants and research-and-development tax credits.[126] However, innovation can only thrive when some information remains free to use, so that others can build on it.[127]

Sandeen & Elizabeth A. Rowe, *Debating Employee Non-Competes and Trade Secrets*, 33 SANTA CLARA HIGH TECH. L.J. 438, 440, 442-49 (2017) (discussing rules applied to noncompetes historically and today).

123. Some scholars still debate the costs and benefits of noncompetes. *See, e.g.*, Jonathan M. Barnett & Ted Sichelman, *The Case for Noncompetes*, 87 U. CHI. L. REV. 953, 957 (2020) (defending competition restrictions imposed by noncompete agreements as a part of sound intellectual-property and innovation policy).

124. *See* Moffat, *supra* note 11, at 911-12 (arguing, with regard to noncompetes, that "upstream rights may inhibit downstream innovation" and that from an innovation perspective noncompetes can "upset the balance struck by the IP regimes between protection and disclosure; that is, between private rights and the public availability of inventions, information, and creations"); Orly Lobel, *Noncompetes, Human Capital Policy & Regional Competition*, 45 J. CORP. L. 931, 936-41 (2020) (discussing various ways that noncompetes are bad for competition, innovation, and economic growth, among other things).

125. *See* JOSH LERNER, THE ARCHITECTURE OF INNOVATION: THE ECONOMICS OF CREATIVE ORGANIZATIONS 16 (2012) ("Innumerable studies have documented the strong connection between new discoveries and economic prosperity across nations and over time.").

126. *See* Camilla A. Hrdy, *Patent Nationally, Innovate Locally*, 31 BERKELEY TECH. L.J. 1301, 1303-04 nn.4-7 (2016) (citing literature proposing various forms of incentives to innovate including, but not limited to, intellectual-property laws).

127. *See, e.g.*, Rochelle Cooper Dreyfuss, *Do You Want to Know a Trade Secret? How Article 2B Will Make Licensing Trade Secrets Easier (But Innovation More Difficult)*, 87 CALIF. L. REV. 191, 206 (1999) ("[T]he knowledge base is cumulative; progress depends on innovators building upon the work of those who came before."); Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 997 (1997) ("[K]nowledge is cumulative—

Trade secret law has substantive limitations, such as its exclusion of general knowledge, that are designed to give workers some freedom to innovate and build on what they acquired from their former employers.[128] If confidentiality agreements lack these outlets, workers may be prevented from using the very building blocks they will need to advance in their field. As Deepa Varadarajan observes, contractual overreach by employers is likely to upset not only worker mobility but also "cumulative innovation."[129] Workers might "be overly cautious," she writes, not only "in changing jobs," but also in "starting new entrepreneurial endeavors" and "making productive use of their skills and knowledge."[130]

4. *Notice Problems*

Finally, broadly drafted confidentiality agreements present concerning "notice" problems. Employees need to know what they can or cannot do with information they receive on the job, both during their employment and after it ends. Scholars have theorized that providing clear notice is a major function of trade secret law's requirement that owners take "reasonable measures" to maintain the secrecy of information that is asserted to be a trade secret.[131] Ideally, these

authors and inventors must necessarily build on what came before them."); Suzanne Scotchmer, *Standing on the Shoulders of Giants: Cumulative Research and the Patent Law*, 5 J. ECON. PERSPS. 29, 32–35 (1991) (asserting that patent incentives for initial creators can impede cumulative innovation by later innovators).

128. *See* Lobel, *supra* note 11, at 805 ("[T]rade secret law . . . is a bargain between encouraging investment in innovation by protecting certain information and stimulating market competition by ensuring the use and dissemination of other information."); Varadarajan, *supra* note 4, at 1555 (writing that trade secret law's substantive limitations help preserve "cumulative innovation," ensuring that employees and other recipients of information can continue "engaging in a wide array of innovative activity"). *But see* Joseph P. Fishman & Deepa Varadarajan, *Similar Secrets*, 167 U. PA. L. REV. 1051, 1056-57 (2019) (arguing that trade secret law can place barriers on cumulative innovation and arguing that employees should have more freedom to use their former employers' information to derive totally different end products).

129. *See* Varadarajan, *supra* note 4, at 1576 (noting that "firms' pervasive use of contracts to subvert trade secret law's requirements and limitations can negatively impact cumulative innovation and employee mobility").

130. *Id.* at 1561.

131. 18 U.S.C. § 1839(3)(A) (2018); *see also* Dreyfuss, *supra* note 121, at 11-12 ("[T]he reasonableness requirement can operate as a replacement for requiring the trade-secrecy holder to give notice of the intent to assert proprietary rights."); Dole, *The Contours of American Trade Secret Law*, *supra* note 87, at 102 ("The Uniform Act's requirement that a trade secret involve reasonable efforts to maintain secrecy also encourages desirable precautions that give notice of claimed trade secret rights."); Varadarajan, *supra* note 80, at 357 (suggesting that the primary purpose of the reasonableness requirement is to "notify a relevant audience . . . about the existence and boundaries of claimed trade secrets").

measures—which invariably include judicious use of confidentiality agreements—will clarify what information is available for workers to use when they leave, and which information might expose them to legal liability.

Confidentiality agreements that cover all or most of the information that workers receive on the job simply cannot provide clear notice. In a trade secret case, these agreements should not suffice to demonstrate that an employer's secrecy precautions were reasonable.[132] But if broad confidentiality agreements can simply claim beyond trade secrecy and be enforced in their own right under contract law, then the "notice" problem remerges with a vengeance. Employees will be bound to legal obligations whose contours they cannot discern. This exacerbates the harms to cumulative innovation, competition, and employee mobility discussed above.[133]

Furthermore, without clear notice, workers who sign these agreements might not have the opportunity to give real consent to be bound in this way. Employees who might never agree to sign a noncompete are likely to sign a so-called confidentiality or nondisclosure provision without a second glance—not realizing they are giving up their ability to freely compete with their employer in the future. In this sense, the overbroad confidentiality agreements can impose "after-the-fact" noncompete obligations to which workers never agreed.[134] Once again, the problem is made worse by the fact that these "surprise" noncompetes are unlimited in time and can potentially last for the employee's lifetime.

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132. They often do, however. *See* Varadarajan, *supra* note 4, at 1557 (noting that "courts give nondisclosure contracts particular importance" in assessing reasonable secrecy precautions) (citing David S. Almeling, Darin W. Snyder, Michael Sapoznikow, Whitney E. McCollum & Jill Weader, *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 82-83 (2011)); *see also* Hrdy & Lemley, *supra* note 23, at 33-35 (discussing case law where courts use confidentiality agreements as evidence of both reasonable secrecy precautions and independent economic value).

133. *See* Varadarajan, *supra* note 80, at 385-86, 395 (discussing the need for employers to "provide clearer ex ante notice" to allow for "follow-on innovation and employee mobility").

134. Courts and scholars have made this same observation when critiquing extreme applications of the inevitable-disclosure theory of trade secret misappropriation, through which courts sometimes grant injunctions to prevent "inevitable" disclosure of trade secrets. *See, e.g.*, Whyte v. Schlage Lock, 101 Cal. App. 4th 1443, 1462-63 (Ct. App. 2002) (rejecting inevitable-disclosure theory under California trade secret law in light of California's ban on noncompetes and observing that relief imposed due to fears of "inevitable disclosure" is similar to a noncompete contract imposed "after the employment contract is made and therefore alters the employment relationship without the employee's consent"); *see also* Peter Huang, *Preventing Post-*PepsiCo *Disaster: A Proposal for Refining the Inevitable Disclosure Doctrine*, 15 SANTA CLARA HIGH TECH. L.J. 379, 381, 389 (1999) ("[A]n extreme application of the inevitable-disclosure doctrine would be equivalent to a very broad noncompetition agreement, with the critical difference being that the employer is forcing the restrictions upon the former employee without the opportunity to negotiate.").

Fortunately, in the next part, we reveal that—despite the common notion that most confidentiality agreements are enforceable—some courts have grown skeptical of confidentiality agreements that go too far beyond trade secrecy. These courts are starting to strike down confidentiality agreements when they look like noncompetes in effect if not in name.

II. LEGAL TREATMENT OF CONFIDENTIALITY AGREEMENTS BEYOND TRADE SECRECY

This Part explains the general framework for assessing the enforceability and legal status of confidentiality agreements that go beyond trade secrecy. It reveals that a greater number of courts are scrutinizing and invalidating confidentiality agreements as restraints on trade.

A. Preemption

But first, we must make a pit stop at preemption. The reason is that, alongside unenforceability, preemption is one major way that a defendant can try to push back against a breach-of-contract claim based on use or disclosure of non-trade-secret information.

1. Preemption by Trade Secret Law

One might think breach-of-contract claims that are based on the same facts, the same underlying information, and the same general prohibitions against use or disclosure as trade secret claims would be "preempted"[135] by trade secret law. However, trade secret law generally leaves contracts untouched.

Understanding why contracts survive requires some history. Trade secrets once were protected only under the common law. The *Restatement (First) of Torts*—which sought to replicate, more or less, the state of the common law of trade secrets as of 1939—stipulated there were *two* related causes of action. Section 757 delineated misappropriation of a somewhat narrowly defined category of "trade secrets"; Section 759 articulated another cause of action for

135. The words "displace" or "supersede" are often used, though courts themselves sometimes discuss the effect of trade secret law on other claims as "preemption." *See, e.g.*, K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc., 171 Cal. App. 4th 939, 957-58 (Ct. App. 2009); *cf.* Camilla A. Hrdy, *The Reemergence of State Anti-Patent Law*, 89 U. COLO. L. REV. 133, 158 (2018) ("'Preemption' generally describes a situation in which federal law 'preempts,' or supersedes, a state or local law.").

misappropriation of information that is "of a secret or confidential character" but that does not qualify as a trade secret.[136]

In the 1970s, the Uniform Law Commission (ULC) drafted the UTSA to provide a more uniform statutory basis for trade secret law, and over the next several decades, states began adopting statutes based on the UTSA.[137] These state statutes generally replaced the states' common-law regimes. The UTSA's definition of a trade secret was broader than the *First Restatement* in at least one important sense: it eliminated the common law's "use in business" requirement.[138] Trade secrecy protection under the UTSA now reached prototypes, research results, "negative know-how,"[139] and a variety of other potentially valuable information that the *First Restatement* excluded from its definition of a trade secret.[140] As a result of this expansion of trade secrecy, the *First Restatement*'s separate cause of action for information "of a secret or confidential character" fell away. There was no longer a need for a cause of action to protect confidential information that did not qualify for the UTSA's broadened definition.[141]

In light of this history, one might think a separate cause of action for confidential information would have been preempted by trade secret law under the

136. RESTATEMENT (FIRST) OF TORTS §§ 757, 759 (AM. L. INST. 1939); *see also* Deepa Varadarajan, *Business Secrecy Expansion and FOIA*, 68 UCLA L. REV. 462, 472-77 (2021) (discussing these two disparate causes of action).

137. *See* Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 493, 512-20 (2010) (recounting the history of UTSA's drafting).

138. The *Restatement (First) of Torts* narrowly defined a trade secret under Section 757 as, in relevant part, "a process or device for continuous use in the operation of the business"; it also excluded, for example, information related to "single or ephemeral events," such as the amount of a "secret bid for a contract." RESTATEMENT (FIRST) OF TORTS (AM. L. INST. 1939).

139. Negative know-how refers to information gained through research or experimentation that leads to unsuccessful outcomes. It includes knowledge about what does not work or what should be avoided. UTSA § 1 cmt. (UNIF. L. COMM'N 1985) ("The definition includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will not work could be of great value to a competitor.").

140. *See, e.g.*, Sandeen, *supra* note 137, at 524-26; Hrdy & Lemley, *supra* note 23, at 19-27; *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (AM. L. INST. 1995) (noting that the First Restatement "imposes unjustified limitations on the scope of trade secret protection"). *But see* Amir H. Khoury, *The Case Against the Protection of Negative Trade Secrets: Sisyphus' Entrepreneurship*, 54 IDEA 431, 432 (2014) (arguing that "negative" information like past research failures should be reported and should not be protected as trade secrets).

141. Varadarajan, *supra* note 136, at 472-77.

newly expanded trade secret regime.[142] But this is not what occurred. The UTSA *did* preempt noncontract causes of action based on misappropriation of a trade secret.[143] But the UTSA left in place all contractual remedies. As amended in 1985, the UTSA provides that "[t]his [Act] does not affect . . . contractual remedies, whether or not based upon misappropriation of a trade secret."[144] Under a plain reading of this text, the UTSA does not supersede "contractual remedies" resulting from breach-of-contract claims, whether or not based on misappropriation of a trade secret.[145]

Richard F. Dole, Jr. refers to this as the "contract exception" to preemption.[146] Essentially all states adopted it—though, as we discuss in more detail below, a few states have enacted nonuniform variations.[147] The upshot is that when an employer sues an employee for breach of a confidentiality agreement, this claim is not displaced by trade secret law, even if the basic facts are the same, and the information at issue is identical to or more expansive than a trade secret. Courts have also held that tortious interference with contract claims brought against

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142. James H. Pooley, *The Artificial Distinction Between Trade Secrets and "Confidential Information,"* IPWATCHDOG (July 28, 2022), https://ipwatchdog.com/2022/07/28/artificial-distinction-trade-secrets-confidential-information [https://perma.cc/9J5L-AWCE] (critiquing the distinction and arguing that most information is now a trade secret); *see also* Varadarajan, *supra* note 136, at 472-77 (discussing the categorization of confidential business information as trade secrets).

143. UTSA § 7 (UNIF. L. COMM'N 1985) ("[T]his [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret."). The states differ significantly in whether noncontractual remedies based on information that *does not* meet the definition of a trade secret are displaced. *See, e.g.*, Robert C. Denicola, *The New Law of Ideas*, 28 HARV. J.L. & TECH. 195, 204-18 (2014); Warrington S. Parker III & Daniel D. Justice, *The Differing Approaches to Preemption Under the Uniform Trade Secrets Act*, 49 TORT TRIAL & INS. PRAC. L.J. 645, 646-47 (2014); Richard F. Dole, Jr., *Preemption of Other State Law by the Uniform Trade Secrets Act*, 17 SMU SCI. & TECH L. REV. 95, 106-08 (2014); William Lynch Schaller, *Illinois Trade Secret Law: The Peculiar Problem of Preemption*, 43 S. ILL. U. L.J. 243 (2019).

144. UTSA § 7 (UNIF. L. COMM'N 1985).

145. The 1985 Commentary makes clear that the drafters intended to leave contracts undisturbed. The Commentary states that UTSA Section 7 "does not apply to a duty voluntarily assumed through an express or an implied-in-fact contract." UTSA § 7 cmt. UNIF. L. COMM'N 1985). The comment also states that "[t]he enforceability of covenants not to disclose trade secrets . . . is governed by other law." *Id.* Thus, the drafters assume that contracts generally would not be affected by the UTSA but some contracts like covenants not to compete might not be enforced for other reasons.

146. Dole, *Contract Exception*, *supra* note 87, at 368-70.

147. *See generally* Russell Beck, *Trade Secrets Acts Compared to the UTSA* (Aug. 8, 2018), https://www.faircompetitionlaw.com/wp-content/uploads/2018/08/Trade-secret-50-State-Chart-20180808-UTSA-Comparison-Beck-Reed-Riden-2016-2018.pdf [https://perma.cc/W6W6-K7HS] (describing variations between the UTSA and the trade secrets laws of each state).

third parties[148] are not necessarily preempted by trade secret law either. Although there is significant divergence among the states,[149] many states allow these claims to go forward even if the information at issue is not a trade secret.[150] This means that once a court finds an employee breached a confidentiality agreement, third parties, such as an onboarding employer, can be held liable for tortious interference with the employee's contractual obligations of confidentiality.

Federal trade secret law, meanwhile, expressly does not preempt state-law claims.[151] Section 1838 of the DTSA provides, in relevant part, that "[e]xcept as provided in section 1833(b)" – which is the DTSA's provision creating immunity for whistleblowers – "this chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States federal, state, commonwealth, possession, or territory law for the misappropriation of a

148. A claim for tortious interference with contractual relations typically requires a plaintiff to show that: "(1) he had a contract with a third party; (2) the defendant knowingly interfered with that contract; (3) the defendant's interference, in addition to being intentional, was improper in motive or means; and (4) the plaintiff was harmed by the defendant's actions." KPM Analytics N. Am. Corp. v. Blue Sun Sci., LLC, No. 21-CV-10572, 2021 WL 6275214, at *9 (D. Mass. Aug. 23, 2021) (quoting O'Donnell v. Boggs, 611 F.3d 50, 54 (1st Cir. 2010)) (applying Massachusetts law established in *Harrison v. NetCentric Corp.*, 744 N.E.2d 622, 632 (Mass. 2001)).

149. Courts applying California law, for example, often find tortious interference with contract claims are preempted by the California UTSA, to the extent they rest on the same facts as trade secret misappropriation claims. *See* K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc., 90 Cal. Rptr. 3d 247, 263 (Ct. App. 2009). *But see* Javo Beverage Co. v. Cal. Extraction Ventures, Inc., No. 19-CV-1859, 2019 WL 6467802, at *4-5 (S.D. Cal. Dec. 2, 2019) (denying motion to dismiss the plaintiff's contractual interference with contract claim because it involved allegations beyond trade secret misappropriation and was "based upon non-trade-secret information").

150. *See, e.g.*, Cardiac Pacemakers, Inc. v. Aspen II Holding Co., 413 F. Supp. 2d 1016, 1023-26 (D. Minn. 2006) (holding that the Minnesota UTSA does not displace a tortious interference claim based on a confidentiality agreement that would be breached regardless of whether there are trade secrets); *see also* Revere Transducers, Inc. v. Deere & Co., 595 N.W.2d 751, 765 (Iowa 1999) (holding that Iowa trade secret law permitted tortious interference with a contract claim based on an employee's "nondisclosure-confidentiality" provisions); IDX Sys. Corp. v. Epic Sys. Corp., 285 F.3d 581, 582 (7th Cir. 2002) (holding that plaintiff's claim that a competitor tortiously induced a customer to breach a confidentiality agreement was not preempted by Wisconsin trade secret law); Houserman v. Comtech Telcomms. Corp., No. 19-CV-00336, 2021 WL 366006, at *11-12 (W.D. Wash. Feb. 3, 2021) (allowing claims for tortious interference based on a confidentiality provision to go to a jury under Washington law); ABC Acquisition Co. v. AIP Prods. Corp., No. 18-CV-8420, 2020 WL 4607247, at *18-19 (N.D. Ill. Aug. 11, 2020) (holding that a tortious interference claim based on confidential information that was not a trade secret was not preempted by Illinois law).

151. Indeed, plaintiffs in DTSA cases frequently plead both of these state-law claims alongside a federal trade secret misappropriation claim. Levine & Seaman, *supra* note 2, at 143 tbl.4.

trade secret."[152] The exception mentioned in Section 1838 is where the defendant being sued for trade secret misappropriation, or potentially for breach of contract, is exercising federally protected whistleblower rights under Section 1833. That is a circumstance where a contract claim based on a confidentiality agreement might potentially be preempted by federal law—though the law is not clear and is rapidly evolving.[153]

2. *Preemption by Patent or Copyright Law*

Neither patent law nor copyright law is likely to preempt a confidentiality agreement either. Both patent and copyright preemption doctrines are strikingly hands-off when it comes to preempting contracts that generate bargained-for, purely relational rights, rather than rights against the world.

In the field of patent law, there is no statutory preemption provision. Instead, courts apply "conflict" preemption principles, striking down a state law only if it interferes with federal patent law's purposes and objectives.[154] For instance, in *Kewanee Oil Co. v. Bicron Corp.*, the U.S. Supreme Court held that Ohio trade secret law, which at the time was based on common law, was not preempted by federal patent law because trade secret laws do not operate "against the world."[155] They do not operate like patents, which forbid "any use of the invention for whatever purpose for a significant length of time."[156] The Court left open the possibility that patent law might preempt a stronger trade secret law that "forbid[s] the discovery of the trade secret by fair and honest means" such as

152. 18 U.S.C. § 1838 (2018); *see also id.* § 1833(b) (creating immunity from liability for whistleblowers' disclosure of trade secrets under limited circumstances).

153. Section 1833 provides immunity from *trade secret liability* for whistleblowers, but it does not refer explicitly to contract claims. 18 U.S.C. § 1833(b) (2018). That said, in a recent case from the Northern District of Ohio, a former employee (Pircio) obtained dismissal of his former employer's (Clearsulting's) breach-of-contract claim. FirstEnergy Corp. v. Pircio, 524 F. Supp. 3d 732, 745 (N.D. Ohio 2021). The court stated: "Section 1833(b) forecloses Clearsulting from asserting a claim for breach of contract to the extent Mr. Pircio engaged in protected activity." *Id.* at 744; *see also* Deepa Varadarajan, *Trade Secret Fair Use*, 83 FORDHAM L. REV. 1401, 1445-49 (2014) (proposing a "fair use"-style defense for trade secret misappropriation that might, among other things, protect whistleblowers in some circumstances); Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1, 30, 57 (2017) (discussing proposals for an exception to trade secret misappropriation to permit whistleblowers to reveal trade secrets in specific circumstances, though observing that ambiguity remains over whether employees can be sued for breach of their NDA).

154. *See* Camilla A. Hrdy, *Getting Patent Preemption Right*, 24 J. INTELL. PROP. L. 307, 308-13, 320-21 (2017).

155. 416 U.S. 470, 490, 493 (1974).

156. *Id.* at 490.

"independent creation or reverse engineering."[157] The Court has also held that a state law forbidding members of the public from copying a public-domain article is preempted because such a law acts as a "significant competitor" to the federal patent system and allows inventors to sit back and rely on state-law protection without having to produce "inventions that meet the rigorous requirements of patentability."[158] However, the Court's reasoning indicates that trade secret laws, as they currently exist, are not preempted by federal patent law because they only create a cause of action for misappropriation against specific actors who obtain the trade secret in breach of a duty or via improper means.

This reasoning applies with even more force to contracts. With some exceptions—such as contracts that forbid reverse engineering of publicly marketed products by purchasers on the open market—contracts typically do not have the effect of a federal patent.[159] They do not compete or interfere with the federal patent system by creating rights in information that apply against the world. In the licensing context, the Supreme Court has upheld contracts that cover unpatentable (and non-trade-secret) subject matter.[160] As Mark A. Lemley observed, the Court has been "inconsistent," "permitting some contracts that extended idea protection to unpatentable subject matter but rejecting other

157. *Id.*

158. Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 160-68 (1989) (holding that a state law that prohibited anyone from copying public-domain boat hulls using a "direct molding" process was preempted by patent law); *see also* Paul Heald, *Federal Intellectual Property Law and the Economics of Preemption*, 76 IOWA L. REV. 959, 959 (1991) (noting that the *Bonito* Court "provided an expressly economic rationale to be used in future determinations of the proper scope of the preemptive power of federal intellectual property statutes"); Douglas Gary Lichtman, *The Economics of Innovation: Protecting Unpatentable Goods*, 81 MINN. L. REV. 693, 695-704 (1997) (discussing the "troubling implications" of *Bonito*); Sharon K. Sandeen, Kewanee *Revisited: Returning to First Principles of Intellectual Property Law to Determine the Issue of Federal Preemption*, 12 MARQ. INTELL. PROP. L. REV. 299, 349-51 (2008) (discussing *Bonito* favorably).

159. *But see, e.g.*, Yang Chen, *Enforceability of Anti-Reverse Engineering Clauses in Software Licensing Agreements: The Chinese Position and Lessons from the United States and European Union's Laws*, 43 U. PA. J. INT'L L. 783, 806-08 (2022) (discussing the case of "anti-reverse engineering clauses" and arguing that "the enforcement of a total contractual ban on reverse engineering for any purpose is likely to be held as preempted by federal patent law").

160. Similar case law in the licensing context has held that parties are generally free to agree to pay to use certain information, and that these licensing deals are not governed by trade secrecy standards. For example, one oft-discussed case held that a party could be bound through contract to pay, *forever*, to use the formula for Listerine, even after the formula became public. *See* Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc., 178 F. Supp. 655, 665 (S.D.N.Y. 1959) ("The parties are free to contract with respect to a secret formula or trade secret in any manner which they determine for their own best interests."); *see also* MENELL ET AL., *supra* note 13, at 106-15 (discussing this and other cases).

contracts that conflict with federal patent policy."[161] But generally speaking, patent preemption principles leave parties free to bargain over information however they choose. For example, in *Aronson v. Quick Point Pencil Co.*, the Court held that a royalty agreement was not preempted by federal patent law, even though the subject of the contract turned out to be an unpatentable invention and probably was not protectable as a trade secret because it was readily ascertainable from the publicly marketed product.[162] The Court alluded to freedom-of-contract principles that let people pay for what they like, concluding that "[f]ederal patent law is not a barrier to such a contract."[163]

The same freedom-of-contract message underlies copyright preemption. Unlike the Patent Act, the Copyright Act does have an express preemption provision, codified in 17 U.S.C. § 301(a).[164] But it is not triggered, on its face, when the claim involves, in relevant part, "activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106."[165] In the influential decision *ProCD, Inc. v. Zeidenberg*, the Seventh Circuit held that rights created by contract are not "equivalent to any of the exclusive rights within the general scope of copyright" because a "copyright is a right against the world. Contracts, in contrast, generally affect only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.'"[166]

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161. Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, 139 (1999). For example, the Court has held, based on antitrust and patent-law principles, that once the term of a patent expires, the patentee can no longer demand royalties. *See* Kimble v. Marvel Ent., LLC, 576 U.S. 446, 462-65 (2015). But the Court made an apparent exception for trade secrets, stating in dicta that a contract can demand royalties for trade secrets relating to the invention even after the patent has expired. *Id.* at 454. *See generally* Herbert Hovenkamp, *The Rule of Reason and the Scope of the Patent*, 52 SAN DIEGO L. REV. 515 (2015) (discussing the "scope of the patent" limit on licensing and settlement agreements).

162. 440 U.S. 257, 259-60, 266 (1979). The trade secret status of the invention in that case was unclear. *See* Lemley, *supra* note 161, at 139 n.120.

163. *Aronson*, 440 U.S. at 264-66.

164. 17 U.S.C. § 301(a) (2018).

165. *Id.* § 301(b).

166. 86 F.3d 1447, 1453-55 (7th Cir. 1996). Judge Easterbrook observed in *ProCD* that this is analogous to the rationale for why *trade secret* claims survive copyright preemption. *See id.* at 1454 ("If [copyright law's preemption provision] overruled *Kewanee* and abolished consensual protection of those trade secrets that cannot be copyrighted, no one has noticed—though abolition is a logical consequence of [holding that § 301 preempts contracts covering uncopyrightable information]."). In trade secret cases, courts do indeed treat copyright preemption similarly to the way it is treated in contract cases. For example, the Second Circuit has held that trade secret claims can survive copyright preemption on the rationale that a "breach of

Courts applying this type of reasoning have developed an "extra element" framework, holding that breach of an express contractual duty supplies an "extra element" that takes a contract claim outside the scope of copyright's preemption provision.[167] But courts' liberal application of this "extra element" test has been criticized. As Michael J. Madison put it, if all that is required to escape preemption is an "extra element," and if "proof of a bilateral promise itself provides the 'extra element,'" then copyright law "preempts virtually no breach-of-contract claims."[168]

Nonetheless, given that this pro-contract interpretation is widely followed,[169] it seems that a standard written confidentiality agreement between an employer and an employee would not be preempted by copyright law. Under the "extra element" framework, when a plaintiff is alleging use or disclosure of information in violation of a confidentiality agreement, the alleged violation of a contractual duty supplies the "extra element" needed to lift the contract claim outside the scope of copyright preemption.

duty . . . supplies the 'extra element' that qualitatively distinguishes such trade secret causes of action from claims for copyright infringement that are based solely upon copying." Comput. Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716-17 (2d Cir. 1992); *see also* Maureen A. O'Rourke, *Copyright Preemption After the* ProCD *Case: A Market-Based Approach*, 12 BERKELEY TECH. L.J. 53, 56-57 (1997) (discussing the court's analysis of the breach-of-contract claim in *ProCD*).

167. *See, e.g.*, Ritchie v. Williams, 395 F.3d 283, 287 n.3 (6th Cir. 2005) (citing cases); *see also* Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 FORDHAM L. REV. 1025, 1128 (1998) ("For copyrighted works under § 301, courts have supplied the 'extra element' doctrine to distinguish copyright from contract claims. The majority formulation of that doctrine holds that if a claim for relief requires proof of an 'extra element' beyond those required to establish liability under the Copyright Act, then the claim is not preempted by federal law. For contract claims, proof of a bilateral promise itself provides the 'extra element.'").

168. Madison, *supra* note 167, at 1128-29; *see also* Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45, 72-73 (2007) (discussing the "extra element" framework); Guy A. Rub, *Copyright Survives: Rethinking the Copyright-Contract Conflict*, 103 VA. L. REV. 1141, 1162 (2017) (same). *See generally* Guy A. Rub, *Against Copyright Customization*, 107 IOWA L. REV. 677 (2022) (criticizing the current framework for giving copyright owners too much latitude to use copyright license agreements to expand their rights).

169. *But see* Guy A. Rub, *Moving from Express Preemption to Conflict Preemption in Scrutinizing Contracts over Copyrighted Goods*, 56 AKRON L. REV. 301, 302 (2023) (discussing recent case law holding that certain contracts *were* expressly preempted by the Copyright Act, though noting that "only contracts between sophisticated parties were being litigated").

B. Contractual Unenforceability

In virtually all states, courts possess discretion to find a contract unenforceable—"void as against public policy"—if it is "injurious to the interests of the public, or contravenes some established interest of society."[170] The rules and case law vary by jurisdiction. Generally speaking, courts can hold a confidentiality agreement in an employment agreement void for public policy under two circumstances: first, if legislation provides that the confidentiality agreement is unenforceable; or second, if the court finds that the employer's "interest in its enforcement is clearly outweighed in the circumstances by a public policy against the enforcement of such terms."[171] This is, of course, on top of all the other possible contract law defenses, such as ambiguity in terms, lack of consideration, material breach by the former employer, or duress by the former employer that led the employee to sign the contract.[172]

1. The Common Wisdom: A Default Rule of Enforceability

The common wisdom is that confidentiality agreements are generally enforceable, regardless of whether the information at issue is a trade secret, and that they are not subject to the same temporal, geographic, and "reasonableness" limitations as noncompetes.[173] For example, a leading trade secrets treatise asserts that confidentiality agreements stand on "an entirely different footing"

170. T.C.B. v. Fla. Dep't of Child. & Fams., 816 So. 2d 194, 195-96 (Fla. Dist. Ct. App. 2002) (holding that a settlement contract that would have terminated a mother's parental rights was void for public policy). *But see In re* Marriage of Traster, 339 P.3d 778, 790-92 (Kan. 2014) (holding that a separation agreement governing the division of marital property was not void for public policy).

171. RESTATEMENT (SECOND) OF CONTRACTS § 178 (AM. L. INST. 1981).

172. *See, e.g.*, Laurence H. Reece, III, *Employee Noncompetition Agreements: Recent Developments and Trends*, 88 MASS. L. REV. 24, 26-30 (2003).

173. *See, e.g.*, 3 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES § 14:5 (4th ed. 2022) ("If a contracting party promises not to divulge information which does not qualify as a trade secret, the agreement creates new rights and duties over and above those imposed by trade secret law. . . . [Nondisclosure agreements are] usually not considered restrictive covenants [and are thus not] subject to the limitations and requirements applicable to covenants not to compete."); *see also* Revere Transducers, Inc. v. Deere & Co., 595 N.W.2d 751, 761 (Iowa 1999) (citing Terry Morehead Dworkin & Elletta Sangrey Callahan, *Buying Silence*, 36 AM. BUS. L.J. 151, 156 n.30 (1998)) ("Nondisclosure-confidentiality agreements enjoy more favorable treatment in the law than do noncompete agreements. This is because noncompete agreements are viewed as restraints of trade which limit an employee's freedom of movement among employment opportunities, while nondisclosure agreements seek to restrict disclosure of information, not employment opportunities."); Dworkin & Callahan, *supra*, at 155; GLYNN ET AL., *supra* note 10, at 494-95.

from "restrictive covenants" such as "agreement[s] not to compete."[174] Whereas "[a] restrictive covenant is an agreement not to compete" and "[b]y definition . . . a restraint of trade," "an agreement that restricts only the use of confidential information or trade secrets remains enforceable," even "[i]n states where covenants not to compete are prohibited by law."[175] The same treatise observes that while "[c]ovenants not to compete must relate to a protectable interest and be reasonable in time and territory," "[a] confidentiality agreement . . . is not subject to any time or territory limitations."[176]

Many courts follow this common wisdom. These courts assume contracts styled as "confidentiality" or "nondisclosure" agreements are *not* restrictive covenants or restraints on trade and thus are immune from the public policy concerns that constrain the enforcement of noncompetes.[177] As a result, they largely rubberstamp confidentiality provisions, with exceptions only for clear public policy violations, such as preventing an employee from testifying against their former employer in a court proceeding.[178]

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174. Melvin F. Jager, *Restrictive Covenants vs. Confidentiality Agreements—Restrictive Covenants*, in 2 Trade Secrets Law § 13:4 (West 2022). *But see* Dole, *supra* note 22, at 2 ("Mr. Jager's observations are applicable only to covenants not to disclose and not to use confidential business information that are not, in substance, covenants not to compete.").

175. Jager, *supra* note 174, §§ 13:3, 13:4.

176. *Id.* § 13:3 (discussing Illinois law). That said, the treatise does mention some case law where courts restricted enforceability of confidentiality agreements that covered more than trade secrets. *Id. See, e.g.*, Serv. Ctrs. of Chi., Inc. v. Minogue, 180 Ill. App. 3d 447, 455 (App. Ct. 1989) (applying Illinois Trade Secrets Act) (holding that a confidentiality agreement that protected "essentially all of the information provided" by employer to employee "concerning or in any way relating" to the employer's services "amounts in effect to a post-employment covenant not to compete which is completely unrestricted in duration or geographical scope. This type of covenant is unreasonable and will not be enforced."); *see also* Hickory Specialties, Inc. v. Forest Flavors Int'l, Inc., 12 F. Supp. 2d 760, 765 (M.D. Tenn. 1998) (applying Tennessee common law) (interpreting the language of a non-disclosure agreement to be synonymous with trade secrets).

177. *See, e.g.*, Insulation Corp. of Am. v. Brobston, 667 A.2d 729, 735 n.7 (Pa. Super. Ct. 1995) (citing Bell Fuel Corp. v. Cattolico, 544 A.2d 450, 458 (Pa. Super. Ct. 1988), *appeal denied*, 554 A.2d 505 (Pa. 1989) (unpublished table decision)) (discussing how under Pennsylvania law, a nondisclosure agreement "is not limited by the reasonableness criteria applicable to 'non-competition' covenants"); Chemimetals Processing, Inc. v. McEneny, 476 S.E.2d 374, 376-77 (N.C. Ct. App. 1996) (observing that under North Carolina law, an "agreement is not in restraint of trade . . . if it does not seek to prevent a party from [competing] but instead seeks to prevent the disclosure or use of confidential information"); Raven Indus., Inc. v. Lee, 783 N.W.2d 844, 851 (S.D. 2010) (quoting 1st Am. Sys., Inc. v. Rezatto, 311 N.W.2d 51, 57 (S.D. 1981) (recognizing that under South Dakota law, a non-disclosure agreement is "not anti-competitive" and "unlike a covenant not to compete" is "free from challenge as a general restraint on trade")).

178. *See, e.g.*, Farmers Grp. v. Lee, 28 P.3d 413, 419-20 (Kan. Ct. App. 2001).

Rex N. Alley refers to this as the "Enforcement-as-Written" approach.[179] Alley gives the example of *Loftness Specialized Farm Equipment, Inc. v. Twiestmeyer,* where the Eight Circuit, applying Minnesota law, enforced a "non-disclosure agreement" that prevented one party from using "[c]onfidential information" that was contractually defined, without exceptions, as "[s]uch information that [the disclosing party] considers to be proprietary and/or confidential."[180]

One might assume remedies in such cases would be limited to damages.[181] But in fact many courts are willing to award injunctive relief for breach of confidentiality agreements, including to protect non-trade-secret information.[182] These courts reason that damages would be virtually impossible to calculate if information of indeterminant value were disclosed, and so injunctions are needed to prevent disclosure before it occurs.[183] Moreover, as we will see in the next Part, many agreements themselves provide for injunctive relief.[184]

An extreme example is the pre-UTSA case, *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*[185] The plaintiff, Structural

179. Alley, *supra* note 22, at 832-35. Chris Montville calls this, similarly, the "unrestrained enforcement" approach, though referring to noncompetes. Montville, *supra* note 22, at 1183.

180. 742 F.3d 845, 848, 850-51 (8th Cir. 2014).

181. The usual remedy for breach of contract is damages. *See* 18 U.S.C. § 1836(b)(3) (2018) (injunctive relief); ROWE & SANDEEN, *supra* note 13, at 35-40 (discussing the comparative weaknesses of contractual remedies). Courts do sometimes award damages for past harm as a result of breaching a confidentiality agreement. Contour Design, Inc. v. Chance Mold Steel Co., 693 F.3d 102, 112-13 (1st Cir. 2012) (upholding a $7.7 million damages award based on lost profits resulting from defendant's "misappropriation in breaching the NDA").

182. *See, e.g.*, Capital One Fin. Corp. v. Sykes, No. 20cv763, 2021 WL 2903241, at *12 (E.D. Va. July 9, 2021) (granting the requested injunction on a contract claim "[r]egardless of whether the customer lists and other confidential information at issue constitute trade secrets"); *Contour Design*, 693 F.3d at 107-12 (upholding the injunction and damages award partially "based entirely" on breach of a nondisclosure agreement, even though parties "hotly disputed" whether the defendant "violated the NDA or trade secret law").

183. *See, e.g.*, HCC Specialty Underwriters, Inc. v. Woodbury, 289 F. Supp. 3d 303, 325 (D.N.H. 2018) (citing Corp. Techs., Inc. v. Harnett, 731 F.3d 6, 14 (1st Cir. 2013)); Boston Sci. Corp. v. Lee, No. 13-13156-DJC, 2014 WL 1946687, at *6 (D. Mass. May 14, 2014) (granting a preliminary injunction after finding plaintiff "has demonstrated that it will incur irreparable injury absent an injunction to enforce the nondisclosure restrictions. The misuse of confidential information can, and in this case does, constitute irreparable harm"); *see also, e.g.*, Rugen v. Interactive Bus. Sys., Inc., 864 S.W.2d 548, 551 (Tex. App. 1993) (citing Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958)) ("Injunctive relief is recognized as a proper remedy to protect confidential information and trade secrets.").

184. *See* discussion in Section III.B *infra*.

185. 401 F. Supp. 1102, 1111-15 (E.D. Mich. 1975); *see also* Johns-Manville Corp. v. Guardian Indus. Corp., 586 F. Supp. 1034, 1074 (E.D. Mich. 1983), *aff'd*, 770 F.2d 178 (Fed. Cir. 1985) (citing *Structural Dynamics*, 401 F. Supp. at 1114, for the rule that confidentiality agreements can apply "not only to trade secrets but also to privileged, proprietary and confidential information").

Dynamics, sued former employees for misappropriation of trade secrets and breach of their confidentiality agreements.[186] The court found there were no trade secrets because the employees were merely seeking to use "skill and knowledge" which they acquired from their former employer.[187] However, the court nonetheless held that the employees had breached the confidentiality agreements, which were broadly worded and did not exclude general knowledge, skill, and experience the workers obtained on the job.[188] The court awarded an injunction as well as damages in the form of a "reasonable royalty," to last for three years.[189]

Incredibly, the employment agreement had also contained a noncompete provision, but the court held this was unenforceable under Michigan law at that time.[190] The court distinguished the confidentiality agreement, finding this aspect of the employment contract *was* enforceable and could be severed from the unenforceable noncompete.[191] Thus, not only did the court allow a confidentiality agreement to protect beyond trade secrecy, it also permitted the confidentiality agreement to provide a remedy beyond what a noncompete could legally do.

2. *The "Three Tiers" Approach*

Most courts do not take the extreme position of *Structural Dynamics*. Instead, they uphold confidentiality agreements that protect non-trade-secret information, but *not* those that prevent an employee from using general knowledge, skill, and experience. These courts recognize that confidentiality agreements can, *in theory*, act like noncompetes.[192] A federal district court, applying Texas law,

186. *Structural Dynamics*, 401 F. Supp. at 1105, 1110.

187. *Id.* at 1111-12.

188. The confidentiality agreements covered, among other things, "information relating to the experimental and research work" of the company; it did "not exclude information, technology or knowledge which the employee himself discovers, develops or contributes." *Id.* at 1112-14.

189. *Id.* at 1118-20. The court found three years to be a good estimate for how long it would have taken the former employees to independently develop the information without using their former employer's information. *Id.*

190. *Id.* at 1115.

191. The court applied Michigan versus Ohio law and then severed the confidentiality agreement from the invalid noncompete. *Id.* at 1112-15.

192. *See, e.g.*, Revere Transducers, Inc. v. Deere & Co., 595 N.W.2d 751, 762–63 (Iowa 1999) (upholding a restriction in an employment agreement that did "not interfere with [former employees'] ability to use skills and general knowledge they acquired through employment with Revere in future employment"); Bernier v. Merrill Air Eng'rs, 770 A.2d 97, 104 (Me. 2001) (upholding a "nondisclosure clause" that did not prohibit an employee "from using the general skill and knowledge he acquired during his employment with Merrill," but instead explained this position as follows: Although "[n]ondisclosure agreements are generally not considered to be restraints of trade" and "are not subject to the stringent requirements" placed on "noncompetition agreements," if a nondisclosure agreement "has the practical effect of 'prohibit[ing] the former employee from using, in competition with the former employer, the general knowledge, skill, and experience acquired in former employment,' then it is more properly characterized as a noncompetition agreement"[193] and should be treated accordingly.

This is, in essence, a "three tiers" approach. How a confidentiality agreement is treated depends on which of three categories of information the agreement seeks to protect.[194] An explanation of this approach comes from the Sixth Circuit in its (unpublished) opinion applying Texas law in *Orthofix, Inc. v. Hunter*.[195] The Sixth Circuit identified "three separate categories of business information" that might be constrained through contracts: (1) "trade secrets," (2) "confidential information," and (3) "general skills and knowledge."[196] The Sixth Circuit indicated that "a non-disclosure agreement prohibiting employees from using general knowledge, skill, and experience acquired in their former employment is more properly characterized as a non-compete agreement."[197] It must meet standards of reasonableness and satisfy the jurisdiction's requirements that make a noncompete enforceable.[198]

On this view, a confidentiality agreement can theoretically be overbroad and "characterized as a non-compete agreement" if it prevents a worker from using their "general knowledge or skills."[199] But in practice, courts typically enforce the contract without delving too deeply into whether this information is, in fact, a

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"protect[ed] the use of information that does not rise to the level of a trade secret but is more than general skill or knowledge").

193. Oxford Glob. Res., Inc. v. Weekley-Cessnun, No. 04-CV-0330, 2005 WL 350580, at *2 (N.D. Tex. Feb. 8, 2005) (citations omitted) (applying Texas law).

194. Unikel, *supra* note 13, at 843 (critiquing the "two-tiered protective scheme, in which" information is "either protectable 'trade secrets' or unprotectable 'general skill and knowledge'" and advocating for a third category of "confidential information"); Hrdy, *supra* note 91, at 2419-22 (depicting three categories of protected information); Alley, *supra* note 22, at 823-28 (depicting three categories of protected information).

195. 630 F. App'x 566, 568-70 (6th Cir. 2015).

196. *Id.* at 567.

197. *Id.* at 573.

198. *Id.* at 573-74.

199. *Id.* at 573.

worker's general knowledge, skill, and experience.[200] In *Orthofix* itself, the Sixth Circuit upheld a confidentiality agreement that protected far more than trade secrets and that probably covered the general knowledge, skill, and experience of the defendant.

The defendant in *Orthofix* was a medical-device salesman who left his job at Orthofix to work for a competitor. He had signed a broad confidentiality provision at Orthofix, providing that he would "never use or disclose any confidential information" which he "acquired during the term of his/her employment with the corporation."[201] The provision contained no express carve-outs for public information or general knowledge.[202] After Orthofix sued for trade secret misappropriation and breach of contract, the lower court specifically found there were no discernable trade secrets[203] and concluded that the confidentiality provision was unenforceable because "the thrust of Orthofix's complaints" against defendant was that he took "skills and information" that he acquired while working for Orthofix.[204] But the Sixth Circuit reversed this factual finding without much analysis, holding the confidentiality provision did not "merely" restrict use or disclosure of "publicly available information" or the employee's "general knowledge, skill, and experience. Nor [did] it prevent [the employee] from working for [his new employer] or competing with Orthofix."[205]

3. *Cases Finding Confidentiality Agreements Unenforceable*

Despite the ocean of case law holding that non-trade-secret information can be the subject of a confidentiality agreement, a growing number of courts are finding that some confidentiality agreements that go beyond trade secrecy are unenforceable. This is not a totally new development.[206] But the universe of case

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200. *See id.* at 574 ("'[C]onfidential information' is generally defined by the parties, and not by achieving trade secret status, so long as it does not encompass publicly available information or an employee's general knowledge or skills."); *see also* Alley, *supra* note 22, at 832-35 (discussing "enforcement-as-written" approach).

201. *Orthofix, Inc.*, 630 F. App'x at 574 n.3 (emphasis omitted).

202. *Id.*

203. The employee was accused of taking a wide variety of non-trade-secret information, including his employment agreement, his W-2 wage statement, and a "playbook" containing customer lists and pricing information, as well as "sales data, staff contacts, physician schedules and preferences, and physicians' prescribing habits." *Id.* at 569-70.

204. *See* Orthofix, Inc. v. Hunter, 55 F. Supp. 3d 1005, 1014-15 (N.D. Ohio 2014).

205. *Orthofix, Inc.*, 630 F. App'x at 574.

206. For example, the *Restatement (Third) of Unfair Competition* takes the position that confidentiality agreements covering non-trade-secret information should be "subject to the traditional law is now impossible to ignore. California has been a leader, and we discuss the leading California case below. But California is not alone. Courts in Arizona,[207] Arkansas,[208] Illinois,[209] Indiana,[210] Nebraska,[211] South Carolina,[212]

rules governing contracts in restraint of trade" and "ordinarily unenforceable unless the information is sufficiently secret to justify the restraint." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. d (AM. L. INST. 1995); *see also* MENELL ET AL., *supra* note 13, at 119 (noting that although "the majority [of courts conclude] that 'reasonable' contract restrictions on use or disclosure of information by employees are enforceable even in the absence of a protectable trade secret," "several courts have invalidated nondisclosure agreements that purport to prohibit disclosure of information that is not in fact confidential").

207. *See, e.g.*, McKesson Med.-Surgical Inc. v. Caccavale, No. CV-04-1351, 2008 WL 11338486, at *6 (D. Ariz. Dec. 23, 2008) (finding that a confidentiality provision was unenforceable because it "swe[pt] so broadly that it [was] unreasonable and amount[ed] to a covenant not to compete without any geographical or temporal limitation").

208. *See, e.g.*, Foster Cable Servs., Inc. v. Deville, 368 F. Supp. 3d 1265, 1274 (W.D. Ark. 2019) (finding that a confidentiality agreement was "an overly broad covenant not to compete masquerading as a confidentiality and nondisclosure agreement").

209. *See, e.g.*, Disher v. Fulgoni, 514 N.E.2d 767, 779 (Ill. App. Ct. 1987) (holding that a confidentiality agreement was unenforceable when it covered information that was "neither confidential nor trade secrets" and was "without reasonable relation to the orderly operation of the business of the corporate defendant"); Serv. Ctrs. of Chi., Inc. v. Minogue, 535 N.E.2d 1132, 1137 (Ill. App. Ct. 1989) (holding that a covenant not to compete that defined confidential information "as essentially all of the information" provided by employer to employee "'concerning or in any way relating'" to the employer's services was "in effect to a post-employment covenant not to cobecausee which [was] completely unrestricted in duration or geographical scope"); Fleetwood Packaging v. Hein, No. 14 C 9670, 2014 WL 7146439, at *8 (N.D. Ill. Dec. 15, 2014) (holding that even if the employer had "adequately established" that the employee disclosed or used "confidential information," its claim for breach of a confidentiality agreement "would still fail" because contracts protecting "confidential information that does not rise to the level of a trade secret" are a "restrictive covenant," and "any such restrictive covenant must be reasonably limited in scope (geographical and durational) in order to mitigate its potentially anticompetitive effects"); *see also* Dole, *supra* note 22, at 11-16 (discussing key Illinois cases).

210. *See, e.g.*, Bodemer v. Swanel Beverage, Inc., 884 F. Supp. 2d 717, 729–37 (N.D. Ind. 2012) (holding that a confidentiality agreement that lacked a durational or geographic restriction was unenforceable, even "under the more lenient confidentiality agreement standard," because it "covers too much information and is unduly restrictive. . . . [I]t is overly broad and unreasonable in light of the interests sought to be protected, and thus, is a restraint of trade that violates public policy.").

211. *See, e.g.*, Softchoice Corp. v. MacKenzie, 636 F. Supp. 2d 927, 939-40 (D. Neb. 2009) (granting defendant's motion for summary judgment on a breach-of-contract claim based on an overly broad nondisclosure agreement because an employer "cannot achieve by way of a nondisclosure agreement what it could not have obtained via a nonsolicitation agreement").

212. *See, e.g.*, Nucor Corp. v. Bell, 482 F. Supp. 2d 714, 728-30 (D.S.C. 2007) (holding that a nondisclosure agreement with a 20-year term that defined "'confidential information' so broadly that virtually all of the information [the employee] acquired during his employment would

Virginia,[213] West Virginia,[214] and others have found confidentiality agreements covering non-trade-secret information to be unenforceable.

The approaches courts take to reach this result vary widely. We discuss the two main approaches below. An important caveat is that the case law we discuss here relates to confidentiality agreements entered *in the employment context*. Courts tend to be far more lenient when reviewing confidentiality agreements in the business-to-business context, where there are typically sophisticated parties on both sides of the transaction with relatively equal bargaining power, and where both sides typically have independent legal representation.[215]

a. *Confidentiality Agreements that Run Afoul of State Statutes Regulating Noncompetes*

Some courts have applied their jurisdictions' noncompete statutes to confidentiality agreements. These courts reason that even if the agreement is not called a noncompete, if it has the effect of a noncompete, it must be regulated under the jurisdiction's noncompete statute.

The most prominent example is California, where state law famously bans noncompetes. Section 16600 of the California Business & Professions Code states that "[e]xcept as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind

fall within its definition" was unenforceable); Fay v. Total Quality Logistics, LLC, 799 S.E.2d 318, 323 (S.C. Ct. App. 2017) (holding that a nondisclosure agreement was unenforceable when it acted in effect as a noncompete and lacked a "reasonable time restriction"); *see also* Samuel C. Williams, *Employee Nondisclosure Agreements in South Carolina: Easily Made, Easily Broken*, 73 S.C. L. REV. 1053, 1064-69 (2022) (discussing the enforceability of nondisclosure agreements in South Carolina).

213. *See, e.g.*, Lasership, Inc. v. Watson, 79 Va. Cir. 205, 2009 WL 7388870, at *8 (Aug. 12, 2009) (No. CL-2009-1219) (holding that a confidentiality agreement is "overly broad and is unenforceable" when it precluded an employee from "'disclos[ing] to *any* person . . . any information concerning . . . the business of Lasership' . . . for the rest of her life . . . including information that is not proprietary in nature or worthy of confidence" (quoting the confidentiality statement at issue)).

214. *See, e.g.*, McGough v. Nalco Co., 496 F. Supp. 2d 729, 756 (N.D. W. Va. 2007) (holding that a nondisclosure provision in an employment agreement was unenforceable when it "forbid Mr. McGough from using knowledge gained during the course of employment," stating that such agreements "are for all purposes, covenants not to compete" and "are subjected to the same scrutiny as the covenant not to compete").

215. *See, e.g.*, PeopleFlo Mfg., Inc. v. Sundyne, LLC, No. 20 CV 3642, 2021 WL 3129264, at *7-8 (N.D. Ill. July 23, 2021) (observing that "business-to-business contracts are analyzed less stringently than employment contracts because businesses negotiating at arm's length hold more bargaining power than typical employees"); *see also supra* notes 48-50 and accompanying text (explaining the distinction between employer-employee agreements and business-to-business contracts).

is to that extent void."[216] This statutory text is not, on its face, confined to explicit agreements not to compete. But until recently, California courts had not been extending Section 16600 to confidentiality agreements.[217]

In the last few years, at least two California courts have found overbroad confidentiality agreements to be void as so-called "de facto noncompetes" in violation of Section 16600.[218] In the leading case, *Brown v. TGS Management Co., LLC*, a California court of appeal held that an employee confidentiality agreement was unenforceable under Section 16600 because it had the effect of preventing a securities trader from working in the securities industry.[219] The defendant, Brown, was a securities trader specializing in statistical arbitrage who had sued his former employer (TGS) for unpaid bonuses. TGS counterclaimed that Brown had breached confidentiality provisions contained in his employment agreement. The case was initially sent to arbitration.

Brown argued the confidentiality provisions in his employment agreement were "so broadly written as to prevent him from ever again working in his chosen profession."[220] Brown's agreement defined "Confidential Information" as "information, in whatever form, used or usable in, or originated, developed or acquired for use in, or about or relating to, the Business."[221] The "Business," in turn, was defined to include "without limitation analyzing, executing, trading and/or hedging in securities and financial instruments and derivatives thereon, securities-related research, and trade processing and related administration."[222]

216. CAL. BUS. & PROF. CODE § 16600 (West 2023). The exceptions, such as where there is a sale of the goodwill of a business, are not broadly relevant in the context of typical employment agreements. *See id.* § 16601 (providing that a person who sells the goodwill of a business may agree with the buyer to refrain from "carrying on a similar business within a specified geographic area" in certain circumstances).

217. *See* Donald J. Polden, *Restrictions on Worker Mobility and the Need for Stronger Policies on Anticompetitive Employment Contract Provisions*, 33 CAL. LAWS. ASS'N: COMPETITION 128, 133-34 (2023), https://calawyers.org/publications/antitrust-unfair-competition-law/competition-spring-2023-vol-33-no-1-restrictions-on-worker-mobility-and-the-need-for-stronger-policies-on-anticompetitive-employment-contract-provisions [https://perma.cc/AT48-JKCS] (discussing how California employers can impose restrictive covenants that are not explicitly covered by Section 16600, and noting that although California courts have given "an expansive reading to the reach of Section 16600" with respect to non-compete clauses, the law is not settled as to when or whether these other types of provisions can violate Section 16600).

218. *Accord* Tait Graves, *Nonpublic Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes under the Uniform Trade Secrets Act*, 10 UCLA J.L. & TECH. 1, 34-35 (2006) (assuming that "[S]ection 16600 would void an employment contract barring use of nonsecret information").

219. 57 Cal. App. 5th 303, 319-20 (Ct. App. 2020).

220. *Id.* at 309-10.

221. *Id.* at 316.

222. *Id.*

Although the arbitrator initially rejected Brown's argument and entered an award for the employer (which the trial court confirmed), Brown prevailed on appeal. The appeals court held the confidentiality provisions "on their face patently violate section 16600. Collectively, these overly restrictive provisions operate as a de facto noncompete provision; they plainly bar Brown in perpetuity from doing any work in the securities field, much less in his chosen profession of statistical arbitrage. Consequently, we conclude the confidentiality provisions are void *ab initio* and unenforceable."[223]

Brown's former employer, TGS Management, pointed out that the provision expressly excluded "information which is or becomes generally known in the securities industry through legal means without fault by" Brown.[224] However, the appeals court found this exclusion to be insufficient given how broadly worded the agreement's definition of "Confidential Information" was. This definition encompassed all sorts of information that was *not* generally known but that Brown would need to use to trade securities at his level of skill and specialization. As the court put it, "Statistical arbitrage is profitable only if the variables and methods behind it are *not* generally known."[225] Thus, Brown would be "unable to work profitably in statistical arbitrage if restricted to using only securities-related information that *is* generally known."[226] From a trade secret law perspective, it seems clear that the court was concerned that the contract would prevent Brown from using general knowledge, skill, and experience that he had gained in the field—even if some of this was developed at his former employer's expense.[227] Thus, a carve-out for only public or generally known information would not be enough.

Concern for workers' general knowledge, skill, and experience was front and center in an even more recent California case. In *Doe v. Google, Inc.*, current and former Google employees sued Google for various violations of California labor law and on the ground that Google's confidentiality agreement was unenforceable. The California Superior Court (a trial court) granted summary judgment against Google, applying the reasoning in *Brown* to hold that Google's

223. *Id.* at 318-19.

224. *Id.* at 317-18.

225. *Id.*

226. *Id.* The agreement also excluded information that "was known by Employee on a non-confidential basis prior to his initial engagement or employment by Employer, as evidenced by Employee's written records." *Id.* The court agreed with Brown that this rose to an "absurdity" because it meant any "securities-related information that was *not confidential* before Brown's employment with TGS metamorphoses into TGS's 'Confidential Information' unless Brown has written records proving his prior knowledge of the information." *Id.*

227. *See supra* notes 91, 118 and accompanying text.

confidentiality agreement acted as a de facto noncompete clause that was void and unenforceable under Section 16600.[228]

The confidentiality agreement at issue provided that during and after employment, Google employees "will hold in the strictest confidence and take all reasonable precautions to prevent any unauthorized use or disclosure of Google Confidential Information."[229] The agreement defined "Confidential Information" as "any information in any form that relates to Google or Google's business and that is not generally known."[230] It further stated that employees could not "use Google Confidential Information for any purpose other than for the benefit of Google in the scope of [an employee's] employment, or . . . disclose Google Confidential Information to any third party without . . . prior written authorization."[231]

The plaintiffs argued that, through these agreements, Google contractually prohibited its employees "from disclosing their professional experience, skills, and business knowledge with prospective employers," and that this operated as an unlawful restraint on trade in violation of Section 16600.[232] Google replied that the agreement did not *explicitly* state that employees could not use "skills and experience" they had acquired at Google or describe their "skills and experience at Google when seeking new employment."[233] However, the court found Section 16600 "does not require an explicit statement" prohibiting employees from using or sharing their skills and experience.[234] A confidentiality provision can act as a de facto noncompete under Section 16600 even if such a restriction is merely *implicit* in how the agreement defines confidential information.[235]

True, Google's confidentiality provision—which applied to "any information in any form that relates to Google or Google's business and that is not generally known"[236]—was not as restrictive as the provision in *Brown*, which had applied, more or less, to any information that was "usable in" or "relate[d] to" the business of trading in securities and that was not generally known in the securities industry.[237] Nonetheless, the court found that Google's confidentiality provision

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228. Order Granting in Part and Denying in Part Plaintiffs' Motion for Partial Summary Adjudication at 8-11, Doe v. Google, Inc., No. CGC-16-556034 (Cal. Super. Ct. Jan. 13, 2022).

229. *Id.* at 8 (quoting Google's At-Will Agreement).

230. *Id.* at 8-9 (quoting Google's At-Will Agreement).

231. *Id.* at 9 (quoting Google's At-Will Agreement).

232. *Id.* at 8.

233. *Id.* at 11.

234. *Id.*

235. *Id.*

236. *Id.* at 8-9 (quoting Google's At-Will Agreement).

237. *Id.* at 10 (quoting Brown v. TGS Mgmt. Co., 57 Cal. App. 5th 303, 315 (Ct. App. 2020)).

implicitly blocked Google employees from sharing the "skills and experience" they had gained at Google when speaking to prospective employers.[238] In sum, the court found Google's agreement was a de facto noncompete and granted summary judgment against Google on this issue.[239]

California courts are not alone in applying their jurisdiction's noncompete statutes to confidentiality agreements. For example, courts in Wisconsin have applied the state's noncompete statute to confidentiality agreements that go beyond trade secrecy. Wisconsin does not ban noncompetes, but it limits their enforceability under a statutory scheme.[240] Even though the statute, on its face, refers specifically to a covenant "not to compete,"[241] numerous courts in the Seventh Circuit have relied on this statute to strike down broadly worded "nondisclosure" agreements.[242] The Wisconsin approach is unusually strict. If a confidentiality agreement, on its face, protects more than trade secrets, the courts will apply the state's noncompete statute.[243] If the confidentiality agreement does not

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238. *Id.* at 10-11.

239. *Id.*

240. WIS. STAT. § 103.465 (2016). For Wisconsin's approach, *see* Ralph Anzivino, *Drafting Restrictive Covenants in Employment Contracts*, 94 MARQ. L. REV. 499 (2010).

241. Section 103.465 of the Wisconsin Statutes provides that "[a] covenant . . . not to compete" "is lawful and enforceable only if the restrictions imposed are reasonably necessary for the protection of the employer or principal." WIS. STAT. § 103.465 (2016).

242. *See* Friemuth v. Fiskars Brands, Inc., 681 F. Supp. 2d 985, 988-91 (W.D. Wis. 2010) ("By its terms, § 103.465 is silent as to nondisclosure agreements; it places limitations only on 'covenant[s] . . . not to compete.' However . . . , it is difficult to see how any nondisclosure agreement could be viewed as falling outside § 103.465."); *see also, e.g.*, Staffworks Grp.-Wis. Inc. v. Serv. First Staffing, No. 18-C-392, 2020 WL 3496985, at *1-4 (E.D. Wis. June 29, 2020) (applying section 103.465 to invalidate a confidentiality provision that would have indefinitely prevented former employees of a temporary staffing company from using customer information that did not qualify as a trade secret); Adjustable Fixture Co. v. Schumaker Lighting, No. 97-C-972, 1997 U.S. Dist. LEXIS 25042, at *60-61 (E.D. Wis. Dec. 16, 1997); Share Corp. v. Momar Inc., No. 10-CV-109, 2011 WL 284273, at *12 (E.D. Wis. Jan. 26, 2011); Priority Int'l Animal Concepts, Inc. v. Bryk, No. 12-C-150, 2012 WL 1995113 , at *5-6 (E.D. Wis. June 1, 2012); Sysco Food Servs. of E. Wis., LLC v. Ziccarelli, 445 F. Supp. 2d 1039, 1052-55 (E.D. Wis. 2006); *cf.* Charles Schwab & Co. v. LaGrant, 483 F. Supp. 3d 625, 628-31 (E.D. Wis. 2020), *appeal dismissed*, No. 20-2878, 2020 WL 9156935 (7th Cir. Oct. 9, 2020) (applying section 103.465 to a stipulated injunction that prevented employee from contacting clients using information that did not qualify as a trade secret and that acted in effect as a perpetual noncompete agreement).

243. *See, e.g.*, *Friemuth*, 681 F. Supp. 2d at 990-91 (holding that a "nondisclosure" agreement that protected more than trade secrets violated the Wisconsin noncompete statute and that merely identifying some trade secret information that the employee might have misappropriated does not take a confidentiality agreement outside the statute's scope if the agreement "also restricts disclosure of information that is not a trade secret").

bear markers of reasonableness—in particular, if it is unlimited in time—courts will likely strike it down.

For instance, in *Nalco Chemical Co. v. Hydro Technologies, Inc.*, the Seventh Circuit held that a confidentiality provision in an employment agreement that protected information that was not a trade secret acted as a perpetual covenant not to compete in violation of Wisconsin's noncompete statute.[244] The agreement contained no time limit and was worded to cover far more than trade secrets.[245] The Seventh Circuit held that if the agreement had been limited to trade secrets, it would not be subject to Wisconsin's noncompete statute.[246] But because the agreement covered information that did not qualify as a trade secret, the statute required it to "be reasonable in time and scope to be enforceable."[247]

b. *Confidentiality Agreements that Fall Below Common Law "Reasonableness" Standards*

In states that do not ban or regulate noncompetes by statute, courts typically review noncompetes under the common law. Typically, the noncompete must be "reasonable" in terms of its duration and geographic reach, and in terms of the scope of competing activity it restricts; it also must be necessary to protect a "legitimate business interest," including but not limited to trade secrets.[248]

A recent example of a case where a court found a confidentiality agreement exceeded common law reasonableness standards comes from the First Circuit,

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244. *See* 984 F.2d 801, 803 (7th Cir. 1993) ("The clause is . . . void and unenforceable unless the confidential customer information qualifies as a trade secret.").

245. *See id.* (quoting Nalco Employment Agreement ¶ 3 (referring to "any information acquired by [the employee] in the course of or incident to his employment relating to or regarding the names of customers of [the employer] . . . or any other data or information concerning the business and activities of [the employer] or Third Parties")).

246. *Id.*

247. *Id.*

248. *See* RESTATEMENT (SECOND) OF CONTRACTS § 188 (AM. L. INST. 1981); *see also, e.g.,* Russell Beck, *Employee Noncompetes: A State-by-State Survey*, BECK REED RIDEN LLP (Aug. 17, 2022), https://beckreedriden.com/wp-content/uploads/2022/08/Noncompetes-50-State-Survey-Chart-20220817.pdf [https://perma.cc/UG5V-FBE5] (discussing the treatment of noncompetes across jurisdictions); Matthew Rametta, Note, *Contracting Away Your Career: An Interstate Comparison of Noncompete Law and A Proposal for Optimal Legislation in New York*, 41 CARDOZO L. REV. 2719, 2742-45 (2020) (providing a comparison of how California, Massachusetts, Texas, and New York treat noncompetes); Kyle B. Sill, *Drafting Effective Noncompete Clauses and Other Restrictive Covenants: Considerations Across the United States*, 14 FLA. COASTAL L. REV. 365, 387-88 (2013) ("[L]egitimate interests vary and are determined by both court and legislative mandate. Courts and legislatures recognize a host of interests as legitimate and protectable, such as customers, livelihood, relationships, confidential information, training, and goodwill.").

applying Puerto Rican common law.[249] In *TLS Management & Marketing Services, LLC v. Rodríguez-Toledo*, TLS Management & Marketing Services, which specializes in tax planning and consulting services, sued a former employee for misappropriation of trade secrets and breach of a "Confidentiality and Non-Disclosure Agreement" that the employee had signed in his work for TLS.[250] The Agreement "prohibited disclosure of 'Confidential Information,'" defined as encompassing, among other things, "any . . . information provided to" the employee by the employer and "any other information that" the employee "may obtain knowledge" of "during his/her tenure while working at" the employer.[251]

The First Circuit held this agreement was unenforceable because there were no trade secrets at issue in the case, and because the "nondisclosure agreement's broad scope extended on its face to public information and general knowledge not particular to TLS's business."[252] In doing so, the First Circuit identified three conditions that will likely render a confidentiality agreement that protects more than trade secrets unenforceable: first, if an employer seeks to extend the agreement "to prohibiting the employee from using general knowledge acquired by the employee";[253] second, if the agreement "prohibits disclosure of information that is not in fact confidential, because it is public knowledge";[254] and, third, if the agreement "extends to information properly provided to the defendant by third-party sources."[255]

All of these conditions applied in this case. Although the agreement did contain three narrow exclusions,[256] it did not exclude "information that was otherwise publicly available."[257] And it did not exclude the employee's general knowledge or information that the employee properly obtained from third-party

249. TLS Mgmt. & Mktg. Servs., LLC v. Rodríguez-Toledo, 966 F.3d 46, 57 (1st Cir. 2020). Puerto Rico uses a common-law framework rather than a statute to assess the validity of noncompetes. *Id.* at 54-58 (citing Arthur Young & Co. v. Vega, 136 D.P.R. 157 (1994)).

250. 966 F.3d at 48-51.

251. *Id.* at 49, 59 (quoting the Confidentiality and Non-Disclosure Agreement, secs. 1.2.2, 1.2.4).

252. *Id.*

253. *Id.* at 58 (internal citations omitted).

254. *Id.* (internal quotations and citations omitted).

255. *Id.* at 59 (internal citations omitted).

256. The agreement contained three narrow exclusions for information disclosed by the employee with the employer's "prior written consent," information that was "previously disclosed" by the employer "to the general public," or information that "is required to be disclosed pursuant to a valid judicial court order." *Id.* (quoting the Confidentiality and Non-Disclosure Agreement, sec. 1.3). But it did not disclaim anything else.

257. *Id.*

sources.[258] It was therefore invalid under Puerto Rican common law. It did not matter that TLS considered this to be a "confidentiality clause" as opposed to a "non-compete clause."[259] To quote the First Circuit: "Overly broad nondisclosure agreements, while not specifically prohibiting an employee from entering into competition with the former employer, raise the same policy concerns about restraining competition as noncompete clauses where, as here, they have the effect of preventing the defendant from competing with the plaintiff."[260]

C. State Legislation Addressing Enforceability of Confidentiality Agreements

As of the time of this Article, some state laws have been enacted or proposed to address confidentiality agreements.

1. Statutes that Regulate Confidentiality Agreements as Restrictive Covenants

As noted above, courts in states like California and Wisconsin have applied statutory schemes designed for noncompetes to confidentiality agreements. More recently, state legislators have begun to include confidentiality agreements explicitly in legislation.

For example, Georgia legislators have amended their state's noncompete statute, generally making it easier to enforce noncompete agreements.[261] The new statute provides a specific definition of "confidential information" that excludes certain categories, such as information that has "entered the public

258. *See id.* ("TLS admits . . . that the nondisclosure agreement protected TLS's operating agreement, even though entire sections of that agreement can be found on the internet. The agreement also covered general knowledge that Rodríguez acquired as an employee, and information that was received from third parties, such as TLS's former clients.").

259. *Id.* at 57.

260. *Id.*

261. Prior Georgia law had been more hostile to restrictive covenants. *See Legislative Changes Give Georgia Employers Cause to Review the Restrictive Covenants in Their Employment Contracts*, CARLTON FIELDS (Apr. 24, 2012), https://www.carltonfields.com/insights/publications/2012/legislative-changes-give-georgia-employers-cause-t [https://perma.cc/2CGF-MCSR]; *see also, e.g.*, Wesley-Jessen, Inc. v. Armento, 519 F. Supp. 1352, 1362 (N.D. Ga. 1981) ("The covenant in the instant case is unlimited in its duration. Such covenants are consistently found to be unreasonable under Georgia decisions since *Durham*. . . . The non-disclosure covenant is void on its face, and the plaintiff cannot succeed on the merits of this claim on a contractual basis.") (first citing Howard Schultz & Assoc. v. Broniec, 239 Ga. 181, 188 (1977); and then citing Thomas v. Best Mfg. Co., 234 Ga. 787, 788 (1975)).

domain through lawful means."[262] The statute further clarifies that a confidentiality agreement can be deemed a "restrictive covenant" that must be "reasonable in time, geographic area, and scope of prohibited activities."[263] However, the statute also provides that a confidentiality agreement will *not* be invalid due solely to lack of a time or geographic limit, as long as the information "remains confidential or a trade secret."[264] Courts have interpreted this to mean that Georgia law "expressly permits nondisclosure provisions concerning trade secrets or confidential information to be unlimited in time."[265]

There will likely be more legislative action by states in the near future. In 2021, the Uniform Law Commission approved the Uniform Restrictive Employment Agreement Act (UREAA), which specifically addresses confidentiality agreements as restrictive covenants. The UREAA, surprisingly, creates *a default rule of unenforceability*, stating that a confidentiality agreement is "prohibited and unenforceable unless the worker may use and disclose information that: (1) arises from the worker's general training, knowledge, skill, or experience, whether gained on the job or otherwise; (2) is readily ascertainable to the relevant public; or (3) is irrelevant to the employer's business."[266]

The UREAA has not been adopted by any state, though a few have considered doing so. Colorado recently passed a statute that, while not directly adopting the UREAA's text, has similar provisions.[267] Still, its creation shows that policymakers are beginning to pay attention to confidentiality agreements far more

262. *See* GA. CODE ANN. § 13-8-51(3) (2023) (defining confidential information and excluding information "(A) which has been voluntarily disclosed to the public by the employer . . . ; (B) which has been independently developed and disclosed by others; or (C) which has otherwise entered the public domain through lawful means").

263. *Id.* § 13-8-53(a); *see also id.* § 13-8-51(15) (defining "restrictive covenant" as, inter alia, "an agreement between two or more parties that exists to protect the first party's or parties' interest in property [or] confidential information").

264. *Id.* § 13-8-53(e).

265. Gen. Elec. Co. v. Uptake Techs., Inc., 394 F. Supp. 3d 815, 829 n.7 (N.D. Ill. 2019).

266. UNIF. RESTRICTIVE EMP. AGREEMENT ACT § 9 (NAT'L CONF. OF COMM'RS ON UNIF. STATE L. 2021) [hereinafter UREAA] (emphasis added), https://www.uniformlaws.org/viewdocument/final-act-7?CommunityKey=f870a839-27cd-4150-ad5f-51d8214f1cd2&tab=librarydocuments [https://perma.cc/Y6RS-KVBU].

267. *See, e.g.*, H.B. 22-1216, 73d Gen. Assemb., 2d Reg. Sess. § 1 (Colo. 2022); H.B. 3435, 58th Leg., 2d Sess. § 2 (Okla. 2022). Colorado passed a new noncompete law that addresses confidentiality agreements, but the legislation the state ultimately adopted was not directly based on the Uniform Restrictive Employment Agreement Act (UREAA). The new Colorado law, effective to employment agreements entered as of August 10, 2022, provides that a "reasonable confidentiality provision" is *not* prohibited by the law if it does not, among other things, "prohibit disclosure of information that arises from the worker's general training knowledge, skill, or experience, whether gained on the job or otherwise." Act of June 8, 2022, ch. 441, sec. 1, § 8-2-113(3)(b), 2022 Colo. Sess. Laws 3097.

than in the past. In Part IV, we draw on certain elements of the UREAA in creating our own enforceability framework.

2. *Nonuniform Amendments to Preemption Provisions*

Some state legislatures have addressed confidentiality agreements by inserting language into their trade secret statutes' preemption provisions.

As noted above, the UTSA generally does not displace contract remedies. But in the 1990s, a few states passed nonuniform amendments that might seem to hint at limitations on contracts' enforceability.[268] In practice, however, they appear to do the opposite, shielding confidentiality agreements from judicial determinations of unenforceability. For example, Illinois's preemption provision provides that the Illinois Trade Secrets Act (ITSA) does not displace "contractual remedies, whether or not based upon misappropriation of a trade secret," and then adds "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."[269] Courts have interpreted this provision to mean that, under the ITSA, "a confidentiality agreement will *not* be deemed unenforceable for lack of durational or geographic limitations where trade secrets *and confidential information* are involved."[270]

In contrast, Massachusetts's more recently adopted preemption provision has the potential to displace (preempt) confidentiality agreements that protect non-trade-secret information. Drafted during Massachusetts's adoption of the Massachusetts Uniform Trade Secrets Act (MUTSA) in 2016, the provision states that the MUTSA does not displace

> contractual remedies, provided that, to the extent such remedies are based on an interest in the economic advantage of information claimed to be confidential, *such confidentiality shall be determined according to the definition of trade secret* [in the MUTSA], where the terms and circumstances of the underlying contract shall be considered in such determination.[271]

This language seems to give courts some discretion to decide that a contract that protects more than statutory trade secrets is displaced by the MUTSA. It

268. Dole, *supra* note 22, at 15 (noting nonuniform amendments adopted in Georgia, Illinois, South Carolina, and Tennessee).

269. 765 ILL. COMP. STAT. § 1065/8(b)(1) (2023) (emphasis added).

270. Coady v. Harpo, Inc., 719 N.E.2d 244, 250 (Ill. App. Ct. 1999) (emphasis added) (citing PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1272 n.10 (7th Cir. 1995)).

271. MASS. GEN. LAWS ch. 93, § 42F(b)(1) (2023) (emphasis added).

casts a cloud over confidentiality agreements in Massachusetts that do not define covered information's "confidentiality" according to the definition of a trade secret. At least one court has applied this provision to hold that the MUTSA displaced a contract claim based on a nondisclosure agreement that went beyond trade secrecy by preventing disclosure of information that is "readily ascertainable by proper means."[272]

D. Federal Trade Commission Proposed Rulemaking

Historically, states have been the primary drivers of noncompete regulation. But now a federal option is on the table. In January 2023, the Federal Trade Commission (FTC) proposed a sweeping new rule that would effectively make noncompetes unlawful at a national level.[273]

Under Section 5 of the FTC Act, the FTC has the authority to investigate and bring enforcement actions against companies that engage in "[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce."[274] Section 6(g) of the FTC Act further 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.[275] The FTC's proposed rule would make it "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; 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."[276]

The proposed rule goes further. It articulates what the FTC calls a "functional" test for deciding what constitutes a noncompete. Under this test, a "nondisclosure agreement between an employer and a worker" can be deemed "a de

272. Needham Bank v. Guaranteed Rate, Inc., No. 2184CV0661-BLS1, 2021 Mass. Super. LEXIS 51, at *18-19, *26 (Apr. 17, 2021) ("[T]he MUTSA supersedes a claim for breach of a nondisclosure agreement intended to protect economically valuable information unless the information sought to be protected by the agreement meets the statute's definition of a trade secret.").

273. Non-Compete Clause Rule, 88 Fed. Reg. 3482 (proposed Jan. 19, 2023) (to be codified at 16 C.F.R. pt. 910). The Commission vote was 3-1, with Chair Lina Khan and Commissioners Rebecca Kelly Slaughter and Alvaro Bedoya in support and Commissioner Christine Wilson dissenting. *See id.* at 3536-40; Christine S. Wilson, Comm'r, Fed. Trade Comm'n, Dissenting Statement of Commissioner Christine S. Wilson Regarding the Notice of Proposed Rulemaking for the Non-Compete Clause Rule (Jan. 5, 2023), https://www.ftc.gov/system/files/ftc_gov/pdf/p201000noncompetewilsondissent.pdf [https://perma.cc/F5L8-UJRT].

274. 15 U.S.C. § 45(a)(1), (b) (2018).

275. *Id.* § 46(g).

276. Non-Compete Clause Rule, 88 Fed. Reg. at 3482.

facto non-compete clause" if it "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."[277]

If adopted, this rule would drastically alter the legal status of both noncompetes and confidentiality agreements nationwide. As discussed in the final Part, some commentators have expressed doubts about the FTC's legal authority to take this action.[278] Moreover, some argue that the FTC's proposed scrutiny of confidentiality agreements comes out of the blue, and that the FTC "provides absolutely no guidance on what an overly 'broad' NDA is."[279] However, our analysis of the case law shows that there *is* substantial precedent for invalidating confidentiality agreements that have the effect of noncompetes. Notably, the FTC itself cites approvingly to *Brown,* suggesting that the agency intends to adopt the California case law striking down confidentiality agreements that act as de facto noncompetes.[280]

Regardless of one's views on the appropriateness of the FTC's proposed action, this case law is immensely illuminating. It helps define when courts might strike down confidentiality provisions in the future. It provides context for the FTC or other lawmakers who may seek to regulate confidentiality agreements that resemble noncompetes. In the final Part of this Article, we draw on this case law, as well as on the FTC's and the ULC's proposals, to provide guidance that can help these decision makers identify problematic confidentiality agreements going forward. But first, we discuss the results of our empirical study.

III. CONFIDENTIALITY AGREEMENTS IN PRACTICE

There is a substantial body of empirical work on noncompete agreements in both law review articles and economics journals,[281] but there has been little empirical work based on confidentiality agreements. Part of the problem is that confidentiality agreements are hard to find. But another part of the problem is that few have gone looking for them, under the assumption that they are not legally

277. *Id.* at 3509, 3535.

278. *See infra* notes 423-426 and accompanying text.

279. John Marsh, *It's Official: The Federal Trade Commission Seeks to Ban Noncompetes and Overly "Broad" NDAs*, BAILEY CAVALIERI LLC (Jan. 5, 2023) (emphasis omitted), https://www.tradesecretlitigator.com/2023/01/its-official-the-federal-trade-commission-seeks-to-ban-noncompetes-and-overly-broad-ndas [https://perma.cc/MQN8-2VAU].

280. The FTC cited to *Brown* to support the concept of a "de facto non-compete clause." Non-Compete Clause Rule, 88 Fed. Reg. at 3484.

281. *See, e.g.*, Norman D. Bishara & Evan Starr, *The Incomplete Noncompete Picture*, 20 LEWIS & CLARK L. REV. 497, 512-34 (2016); *see also* Seaman, *supra* note 5, at 1197-1204 (summarizing existing empirical literature on noncompetes).

problematic. As a result, there is significant opacity when it comes to what these agreements look like in practice.

This is unfortunate. It is clear from the case law discussed above that confidentiality agreements do not all look the same. Some use language that is very, very broad—like the agreement in *Brown*. But without more information, it is impossible to know whether those agreements are merely outliers or the norm. At the same time, courts do not agree over how confidentiality agreements should be treated under the law. Should they be scrutinized for reasonableness, like noncompetes are, or should they be given a rubber stamp? Without knowing what these agreements generally look like, courts will have a difficult time making these legal determinations.

In this Part, we detail the results of a novel empirical study that seeks to bring some much-needed transparency to this area of law and practice. Using a sample of confidentiality agreements that were publicly disclosed in trade secret litigation in federal court, we assess the major terms of these contracts. We assess how they compare to trade secrets in terms of the subject matter they protect and in terms of the obligations and remedies they impose. We also assess whether they possess characteristics that make them likely to have the effect of noncompetes.

We first describe the methodology used, including study design and data collection. We then detail the key results from this empirical study. Next, we articulate potential limitations of the collected data. Finally, we address some implications that flow from the results.

A. Study Design and Data Collection

An original dataset was created for this study.[282] The starting point was one author's prior dataset of contractual noncompete agreements that had been publicly disclosed in trade secret litigation in federal court.[283] These agreements were culled from a comprehensive search of federal district court cases where a party

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282. In accordance with scholarly norms regarding empirical legal research, this dataset will be made publicly available upon the Article's publication at the *Yale Law Journal*'s Dataverse page: https://dataverse.harvard.edu/dataverse/ylj. *See* Robin Feldman, Mark A. Lemley, Jonathan S. Masur & Arti K. Rai, *Open Letter on Ethical Norms in Intellectual Property Scholarship*, 29 HARV. J.L. & TECH. 339, 348 (2016) (recommending that "data needed to replicate the results in a published empirical paper should be made accessible to other academics at the time the paper is published").

283. Seaman, *supra* note 5, at 1208-10.

asserted a claim of trade secret misappropriation under the DTSA[284] for a one-year period following the DTSA's enactment.[285]

As part of that noncompete study, as well as a previous empirical study into trade secret litigation under the DTSA,[286] each case in the dataset was hand coded for a variety of basic case information,[287] including the identity of the litigating parties,[288] the district court where the case was filed,[289] and the case's docket number.[290] For each contractual agreement disclosed in these cases, a hyperlink to a downloaded copy of the agreement,[291] the individual's name as contained in the agreement,[292] and the date the agreement was signed[293] were coded as well.

The vast majority of agreements in our dataset were between an employer and one or more employees (93%). However, the dataset also includes some contracts where the recipient is styled as an "independent contractor."[294] We excluded dissimilar contracts, such as purchase or ownership agreements for a business, franchise or dealer agreements, and business-to-business contracts that contained confidentiality clauses, on the grounds that these sorts of

284. 18 U.S.C. §§ 1831-1839 (2018).

285. Levine & Seaman, *supra* note 2, at 123-24. That study involved using keyword searches in Bloomberg Law, Westlaw Next, and LexisAdvance; it identified 486 federal cases that raised a DTSA claim between May 11, 2016 and May 10, 2017. *Id.* at 124-25. An additional 203 DTSA cases during the same time period were subsequently identified using the Lex Machina database for the noncompete study. *See* Seaman, *supra* note 5, at 1208.

286. Levine & Seaman, *supra* note 2.

287. Variable names are listed in brackets in the following footnotes.

288. These were coded as two separate string (text) variables: [plaintiff] and [defendant]. If multiple plaintiffs or defendants were named, only the first named party was used for each variable. Levine & Seaman, *supra* note 2, at 125 nn.104-05.

289. This variable [court] was coded using a three- or four-letter abbreviation consistent with the federal Public Access to Court Electronic Records system (PACER). *Id.* at 126 n.107.

290. This variable [docket] was coded in the following format: N:NN-CV-NNNN (where N is a number). *Id.* at 126 n.108.

291. This was coded as a text (string) variable [noncompete_link] in URL format to one author's personal Google Drive folder. *See* Seaman, *supra* note 5, at 1209 n.194 (using the same methodology).

292. This was coded as a text (string) variable [employee_name] in the follow format: last name, first name.

293. This variable [date_doc] was coded in the following format: MM/DD/YYYY.

294. *See, e.g.*, Exhibit C, Independent Contractor Agreement, at 3, MickeyTravels LLC v. Holmes, No. 16-CV-06622 (D.N.J. Oct. 6, 2016) ("MickeyTravels has engaged Independent Contractor to act as an independent salesperson for the purpose of providing travel-related services in connection with individual or group travel accommodations."). For the sake of simplicity, we use "employee" in the rest of this Part to refer collectively to both employees and independent contractors.

agreements were considerably different than employer-employee agreements in purpose, scope, and the parties' relative bargaining power.[295] After these exclusions, our dataset contained 446 agreements.

Next, for this study, each agreement was hand coded for a variety of additional information. First, each agreement was coded for whether it expressly protected trade secrets,[296] confidential information,[297] proprietary information,[298] private information,[299] and/or internal information.[300] Each agreement was also coded for whether it prohibited the disclosure or use of information designated as a trade secret, confidential, proprietary, or private;[301] whether it specifically identified particular categories or types of information protected from disclosure;[302] whether it stated that any information marked as confidential or proprietary was prohibited from disclosure;[303] and whether it included language designating all information created or developed by the employee during employment as the employer's property and/or that it could not be used or disclosed without the employer's permission.[304] We also coded whether each agreement itself was designated as confidential or otherwise prohibited from disclosure.[305]

Additionally, each agreement was hand coded for whether the confidentiality agreement expressly excluded certain categories or types of information as not protected, namely: (i) information that was publicly or generally known at the time of the agreement; (ii) information that later became publicly or generally known through no fault of the employee; (iii) general skills, knowledge, and experience; (iv) information received prior to employment or from another source that was not confidential; (v) information obtained through reverse engineering; (vi) information obtained from independent development; and (vii)

295. *See supra* notes 48-50 and accompanying text (further detailing the differences between employer-employee agreements and business-to-business contracts).

296. This was coded as a binary (dummy) variable: [tradesecret].

297. This was coded as a binary (dummy) variable: [confidential].

298. This was coded as a binary (dummy) variable: [proprietary].

299. This was coded as a binary (dummy) variable: [private].

300. This was coded as a binary (dummy) variable: [internal].

301. These were coded as binary (dummy) variables: [nodisclose] and [nouse].

302. This was coded as a binary (dummy) variable: [identify].

303. This was coded as a binary (dummy) variable: [mark].

304. This was coded as a binary (dummy) variable: [develop].

305. This was coded as a binary (dummy) variable: [confid_agreement]. Of course, a selection effect may affect this variable, as confidentiality agreements that are publicly disclosed in a court filing are less likely to be designated confidential themselves.

information that was otherwise readily ascertainable.[306] We also coded for whether the agreement expressly permitted the employee to disclose confidential information when required by law, such as in response to a subpoena or other judicial process.[307]

Regarding other potential limits on the scope of confidentiality, each agreement was further hand coded for whether it contained a time limit,[308] and if so, its duration,[309] as well as whether the agreement had a geographic limit,[310] and if so, its reach.[311] In addition, each agreement was hand coded for a variety of potential remedies for breach, including an acknowledgment that disclosure and/or use of trade secret, confidential, or proprietary information constituted irreparable harm[312] (a necessary requirement for both a preliminary and a permanent injunction);[313] consent to injunctive relief by a court;[314] payment of liquidated damages[315] (and if so, the amount);[316] disgorgement or forfeiture of profits obtained through disclosure or use of protected information;[317] payment of punitive damages;[318] and recovery of the employer's attorney's fees[319] and

306. This was coded as a categorical variable: [carveout].

307. *Id.*

308. This was coded as a binary (dummy) variable: [duration].

309. This was coded as a numeric variable for the confidentiality agreement's duration in months after termination of employment: [duration_months]. For example, a confidentiality agreement lasting a year after the termination of employment would be coded as 12.

310. This was coded as a binary (dummy) variable: [geo].

311. This was coded as a categorical variable: [geo_distance].

312. This was coded as a binary (dummy) variable: [irreparableharm].

313. eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 391 (2006) ("[A] plaintiff seeking a permanent injunction . . . must demonstrate . . . that it has suffered an irreparable injury . . . ."); Winter v. Nat. Res. Def. Council, Inc., 555 U.S. 7, 20 (2008) ("A plaintiff seeking a preliminary injunction must establish . . . that he is likely to suffer irreparable harm in the absence of preliminary relief . . . .").

314. This was coded as a binary (dummy) variable: [injunction].

315. This was coded as a binary (dummy) variable: [liquid].

316. This was coded as a numeric variable measured in dollars: [liquid_amount].

317. This was coded as a binary (dummy) variable: [profits].

318. This was coded as a binary (dummy) variable: [punitive].

319. This was coded as a binary (dummy) variable: [attyfees].

court costs.[320] Finally, the coder of each agreement was recorded,[321] along with a notes field for other potentially relevant or interesting information.[322]

B. Results

A number of key findings arise from the data collected in this empirical study. These are reported below as descriptive statistics.

First, we find that the vast majority of confidentiality agreements in our data go beyond merely covering trade secrets. While 77% (343 out of 446) of agreements expressly protect trade secrets from disclosure, an even larger number—97% (431 out of 446)—protect confidential information. In addition, almost two-thirds (63%, 281 out of 446) of agreements prevent employees from disclosing proprietary information. In contrast, a much smaller percentage of agreements protect information designated as merely private (4%, 18 out of 446) or internal (4%, 20 out of 446).

Second, we find that virtually all (99%, 444 out of 446) confidentiality agreements in our dataset prohibit employees from disclosing protected information, while the vast majority (88%, 393 out of 446) also prohibit employees from using this information without authorization.

Third, nearly 40% (177 out of 446) of confidentiality agreements in our dataset contained no exclusions at all for any categories or types of information as not protected, even though trade secret law contains numerous such exclusions.[323] And less than one-quarter of agreements (24%, 107 out of 446) contained exclusions for reasons other than that the information was publicly or generally known through no fault of the employee, either at the time the agreement was entered into or afterward. For instance, only 4% of agreements (18 out of 446) excluded an employee's general skills, knowledge, and experience from disclosure and/or use, even though such information is not protectable as a trade secret and, as detailed above, many courts have suggested that seeking to protect general skills, knowledge and experience through a confidentiality agreement justifies treating this as an unenforceable restrictive covenant.

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320. This was coded as a binary (dummy) variable: [costs].

321. This was coded as a string (text) variable [coder1] in the following format: last name first initial. Research assistants, who were all law students, did the initial coding. One of the authors then personally verified each coding decision, which was itself coded as a variable: [coder2].

322. This was coded as a string (text) variable: [notes].

323. A handful of these agreements (9 out of 177) stated that information would be disclosed when required by law, such as in the case of a lawfully issued subpoena or court order, but otherwise contained no exclusions.

Fourth, over 90% of confidentiality agreements in our dataset (93%, 414 out of 446) contained no durational limit, meaning that they effectively lasted for the employee's entire lifetime. In addition, only a handful (2 of 446) of agreements contained any geographic limit.

Finally, regarding contractual remedies, over three-quarters of agreements in our dataset (79%, 352 out of 446) provided that the employer could obtain injunctive relief against an employee for breach of the confidentiality agreement. In addition, 60% (267 out of 446) of the studied agreements provided that disclosure or use of protected information constitutes irreparable harm for purposes of awarding injunctive relief. Nearly half of agreements in our dataset (48%, 213 out of 446) also provided that an employer could recover its attorney's fees in the event of breach, while a similar number (44%, 196 out of 446 agreements) stated the employer could recover its litigation-related costs as well. A much lower number of agreements provided that the employee could be required to disgorge profits or other gains due to the breach (9%, 41 out of 446), while only 4% (17 out of 446) mandated that an employee pay liquated damages upon breach.

C. Limitations

Before discussing the implications of our findings, it is important to highlight the limitations of our data. Like all empirical research, the methodology used in this study has limitations that could affect the implications discussed below.[324] This Section discusses several potential limitations and the authors' efforts to address them.

First, this study is based upon information from litigation, which is subject to the well-known selection effect. The impact of this selection effect could be that the confidentiality agreements in our data set are not representative of those in the broader labor marketplace. The cases that end up in litigation "constitute neither a random nor a representative sample . . . of all disputes."[325] One reason for this bias is that litigation is expensive; "[m]any disputes are resolved before

324. *See* Michael Heise, *The Past, Present, and Future of Empirical Legal Scholarship: Judicial Decision Making and the New Empiricism*, 2002 U. ILL. L. REV. 819, 849 ("Data, research design, and statistical methods frequently enforce limits on what can be properly inferred from the results of empirical studies. . . . Notwithstanding these inherent and structural limitations, empirical methodologies are well-positioned to enhance and complement traditional legal scholarship."). Under best practices, authors of empirical legal research "should discuss limitations on the validity and generalizability of [their] empirical findings." Gregory Mitchell, *Empirical Legal Scholarship as Scientific Dialogue*, 83 N.C. L. REV. 167, 203 (2004).

325. George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation*, 13 J. LEGAL STUD. 1, 4 (1984).

a lawsuit is filed" because it is often more cost effective "to settle than to litigate."[326] In particular, this dataset is based on agreements obtained from trade secret litigation, which can be quite expensive and time consuming, even compared to other types of civil litigation in federal court.[327] In light of this expense and potential delay, parties may select other methods of resolving disputes based on confidentiality agreements, such as alternative dispute resolution, or they may privately resolve their grievances, resulting in information that is externally unobservable.[328] Furthermore, at least some confidentiality provisions in employment agreements will provide for resolution of disputes through mandatory arbitration.[329] These cases also typically will not be litigated and thus will not appear in the dataset.[330] The upshot, again, is that the agreements in our dataset may not be perfectly representative of those in the marketplace.

Relatedly, employers that utilize exceptionally broad confidentiality agreements to protect workplace information may be more likely to sue in federal court to enforce them. The firms that aggressively use contract law to control a wide swath of business information may be the same firms that pursue litigation against former employees for allegedly breaching those contracts. There is no

326. Robert H. Gertner, *Asymmetric Information, Uncertainty, and Selection Bias in Litigation*, 1 U. CHI. L. SCH. ROUNDTABLE 75, 75, 79 (1993); *see also* Theodore Eisenberg, *Litigation Models and Trial Outcomes in Civil Rights and Prisoner Cases*, 77 GEO. L.J. 1567, 1571 (1989) ("Both sides can save the costs of litigation by settling [a] dispute.").

327. *See* AM. INTELL. PROP. L. ASS'N, 2019 REPORT OF THE ECONOMIC SURVEY 68 (2019) (finding in a survey of IP attorneys that the median litigation cost for a trade secret case varied from $550,000 (if less than $1 million was at risk) to over $7.5 million (if more than $25 million was at risk)).

328. *See* Scott H. Blackman & Rebecca M. McNeill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 AM. U. L. REV. 1709, 1728 (1998) (explaining that ADR is often preferred in trade secret litigation because "[b]y the very nature of the issues involved, usually at least one party . . . is very concerned about maintaining the secrecy of the trade secret or other confidential or proprietary information"). *See generally* Steven Shavell, *Alternative Dispute Resolution: An Economic Analysis*, 24 J. LEGAL STUD. 1 (1995) (examining reasons why parties would choose alternative dispute resolution as opposed to trial).

329. *See, e.g.*, Exhibit 1, Non-Competition, Confidentiality, and Arbitration Agreement at § 21, LeafFilter N., Inc. v. Caldwell, No. 16-CV-1366 (N.D. Ohio June 17, 2016), ECF No. 1-1 ("The parties agree that any controversies or disputes arising out of the terms of this Agreement or its interpretation, and/or the parties' relationship, shall be resolved by binding arbitration . . . .").

330. Even if an arbitration clause is included, however, some of these disputes may still end up in federal court for preliminary relief, such as a temporary restraining order or preliminary injunction. *See id.* (providing in the arbitration clause that "should an injunction and/or other equitable relief be sought by [employer,] such injunction may be sought, at [employer]'s discretion, in either state or federal court"); *see also* LeafFilter N., Inc. v. Caldwell, No. 16-CV-1366, 2016 WL 10489842, at *1 (N.D. Ohio June 17, 2016) (granting a permanent injunction against former employee under this Agreement).

hard data to suggest this, and the counterfactual is impossible to observe. But we concede the possibility that the confidentiality agreements in this dataset are broader in scope, both in terms of the information covered and in terms of other factors like temporal duration, than is the norm. It could be—though we doubt this is the case—that the larger universe of employee-employer contracts is much more narrowly tailored.

Second, the number of confidentiality agreements in the dataset is small compared to the estimated frequency of such agreements in the American workforce. It is thus difficult to draw definitive conclusions regarding millions of confidentiality agreements (and other post-employment restraints) across a wide variety of firms and workers based upon a study of several hundred publicly disclosed samples. However, the confidentiality agreements in our dataset span a wide range of employees in numerous different fields.[331] In that sense, they are somewhat representative. They do not unduly focus on a single type of worker (such as a CEO)[332] or a specific industry.[333] So while we concede the comparatively small size of our dataset, we think that the underlying data is diverse enough to draw impactful conclusions.

Finally, many variables in the dataset were hand coded, which is a potential source of error. For example, if the variables are ambiguous or include room for subjectivity, this could result in inconsistent application and negatively impact reproducibility.[334] However, this concern can be mitigated by creating, pilot testing, and implementing written coding instructions that all coders[335] must follow,

331. These industry categories are detailed in one author's previous empirical work using the same underlying source material of employer-employee contracts. *See* Seaman, *supra* note 5, at 1213-14 & figs.1-2 (showing that these employees included, by percentage, sales and customer-service personnel (38%), CEOs and other senior management (25%), and technical and engineering staff (12%) and were spread across a wide range of industries, including finance and insurance; professional, scientific, and technical services; manufacturing; wholesale and/or retail trade; information services; construction; and health care and social assistance).

332. *See, e.g.*, Bishara, Martin & Thomas, *supra* note 11 (reporting the results of a sample of employment contracts for CEOs of large, publicly traded firms disclosed in federal securities filings).

333. *See generally* Kurt Lavetti, Carol Simon & William D. White, *The Impacts of Restricting Mobility of Skilled Service Workers: Evidence from Physicians*, 55 J. HUM. RES. 1025 (2020) (reporting results from a survey of physicians regarding employment contracts, including noncompete clauses).

334. *See* LEE EPSTEIN & ANDREW D. MARTIN, AN INTRODUCTION TO EMPIRICAL LEGAL RESEARCH 95-105 (2014) (describing best practices for coding).

335. The coders for this project were law students who were employed as the authors' research assistants. As a further check, one author personally reviewed all coding decisions.

as was done in this project.[336] Moreover, we are making our dataset public so that others can reassess our conclusions if they choose.

D. Implications

Conceding these limitations, and assuming that our dataset is representative of confidentiality agreements in the workplace, we draw several implications from this study. The most direct implication is that some of the confidentiality agreements captured in our dataset are drafted so broadly that they replicate the effects of noncompete agreements. They are what the FTC would consider de facto noncompetes.[337] They also lack the time-and-scope limitations that typically accompany noncompete clauses.[338]

We can go further, drawing conclusions about the broader universe of confidentiality agreements not captured in our data. We hypothesize that a significant (albeit unquantified) number of confidentiality agreements entered between employers and workers share certain characteristics that make them similar to noncompetes in effect. First, they protect far more than trade secrets, utilizing the open-ended terms "confidential" or "proprietary" to describe the covered information.[339] Many protect public or generally known information and implicitly cover information that trade secret law would consider to be in the employee's general knowledge, skill, and experience. This is exactly the type of information workers will need to use when they leave their jobs if they wish to continue working in the same field and if they wish to compete with their former employers.

Second, confidentiality agreements in the workplace usually prevent use of the covered information as well as disclosure. Some are surely misleadingly

336. In empirical research, written coding instructions are preferred so that all coders apply the same criteria for each coding decision. This promotes consistency in coding and also serves as "a check against looking, consciously or not, for confirmation of predetermined positions." Mark A. Hall & Ronald F. Wright, *Systematic Content Analysis of Judicial Opinions*, 96 CALIF. L. REV. 63, 81 (2008); *see also* EPSTEIN & MARTIN, *supra* note 334, at 106-12 ("[T]he primary goal of a codebook is to minimize human judgment—to leave as little as possible to interpretation.").

337. *See* Non-Compete Clause Rule, 88 Fed. Reg. 3482, 3484 (proposed Jan. 19, 2023) (to be codified at 16 C.F.R. pt. 910).

338. *See* Seaman, *supra* note 5, at 1215 & fig.3 (finding that 86% of studied noncompetes lasted for two years or less).

339. *See, e.g.*, Confidentiality and Non-Competition Agreement § 1.1, USG Ins. Servs. v. Bacon, No. 16-CV-1024 (W.D. Pa. July 11, 2016) ("Confidential/Proprietary Information shall mean trade secrets, confidential or proprietary information, and all other knowledge, information, documents, and materials owned, developed, or possessed by Employee . . . .").

labeled as “nondisclosure” provisions, even though they prohibit use as well.[340] A worker can breach these nonuse obligations even if they do not deliberately disclose the information to others, and even if their use is inadvertent.[341] Imposing nonuse obligations on workers is far more similar to what a noncompete does than what a mere “NDA” does. Workers may find it hard if not impossible to avoid breaching these nonuse obligations.

Third, a sizable number of confidentiality agreements in the workplace likely stipulate that the employer can obtain injunctive relief upon breach, and that such a breach constitutes “irreparable harm” justifying an injunction.[342] These contractual stipulations do not necessarily mean a court will actually grant an injunction upon enforcement,[343] but as noted in Part II, in practice, many courts do award injunctive relief for claims involving breach of confidentiality agreements.[344] This belies the notion that damages are the usual remedy for breach of

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340. *See* example provided *supra* note 56.

341. *See* discussion *supra* note 60.

342. *See, e.g.*, Retention Agreement § 9, Fenner Dunlop Ams., LLC v. Int’l Conveyor & Rubber, LLC, No. 17-CV-0305 (W.D. Pa. Mar. 8, 2017) (“You understand that violation of . . . this Agreement may result in immediate and irreparable injury to Employer. Accordingly, you agree that Employer has the right to seek a temporary injunction, restraining order and/or a permanent injunction to enforce the terms of this Agreement . . . .”).

343. *See, e.g.*, Dragon Jade Int’l, Ltd. v. Ultroid, LLC, No. 17-CV-2422, 2018 WL 1833160, at *4 (M.D. Fla. Jan. 30, 2018) (concluding that “the consensus among the reported decisions appears that contractual provisions regarding entitlement to injunctive relief are accorded little to no weight”); Cabela’s LLC v. Highby, 362 F. Supp. 3d 208, 223-24 (D. Del. 2019), *aff’d*, 801 Fed. App’x 48 (3d Cir. 2020) (applying Nebraska law) (concluding that “[i]t appears that most federal courts do not consider a contractual stipulation dispositive for purposes of showing irreparable harm”). Whether an injunction is warranted depends on a variety of real-world factors and requires considering equitable factors, such as the balance of harms. *See* eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 388 (2006) (holding that courts in patent cases must apply all four equitable factors before granting a permanent injunction); *see also* F. Andrew Hessick & Michael T. Morley, *Interpreting Injunctions*, 107 VA. L. REV. 1059, 1067-68 (2021) (listing equitable factors for granting injunctions and citing major case law).

344. *See supra* notes 182-183 and accompanying text; *see also* Uncle B’s Bakery, Inc. v. O’Rourke, 920 F. Supp. 1405, 1435 (N.D. Iowa 1996) (applying Iowa law) (granting preliminary injunction based in part on a confidentiality and noncompete agreement and finding “sufficient threat of irreparable harm” given the risk of disclosure of trade secrets, that “at least provisionally, . . . the information in question is indeed trade secrets,” and that “disclosure of such information threatens irreparable harm”); HCC Specialty Underwriters, Inc. v. Woodbury, 289 F. Supp. 3d 303, 325 (D.N.H. 2018) (applying Massachusetts law) (finding that the employer “has demonstrated that it will incur irreparable injury absent an injunction to enforce the nondisclosure restrictions” and that “[t]he misuse of confidential information can, and in this case does, constitute irreparable harm”).

contract,[345] and makes these agreements resemble noncompetes in effect.[346] Many likely also provide that a prevailing employer can recoup its attorney's fees and costs – despite the fact that attorney's fees are difficult to obtain in trade secret cases.[347]

Finally, it seems safe to say that confidentiality agreements in the workplace are almost always unlimited in time and geographic scope. Infinite duration and global applicability are the norm rather than the exception.[348]

IV. CHANGING THE DEFAULT RULE

Despite the growing body of case law finding overbroad confidentiality agreements to be unenforceable, many courts nonetheless uphold such agreements. They insist that confidentiality agreements and so-called "NDAs" are not restraints on trade or restrictive covenants at all.[349] The default rule remains one of enforceability.

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345. *See* ROWE & SANDEEN, *supra* note 13, at 35-40 (noting weaknesses of contractual remedies compared to trade secret remedies). *But see* Robert G. Bone, *The (Still) Shaky Foundations of Trade Secret Law*, 92 TEX. L. REV. 1803, 1818-19 (2014) ("It is true that contract remedies are more limited than trade secret remedies, but there is nothing to prevent a court from granting an injunction through specific performance when damages are inadequate – assuming contract policies support specific performance.").

346. Courts often issue injunctions in noncompete cases stopping an employee from working for a competitor for a period of time. *See, e.g.*, Bishara, Martin & Thomas, *supra* note 11, at 13 (noting that a noncompete allows firms to "control information and skills through the equity mechanism of an injunction prohibiting the employee from going to work with another employer").

347. Under the DTSA, reasonable attorney's fees may be awarded to the prevailing party only if "a claim of misappropriation is made in bad faith . . . or the trade secret was willfully and maliciously misappropriated." 18 U.S.C. § 1836(b)(3)(D) (2018); *see also* Kazim A. Naqvi, *A High Mountain to Climb: Filing DTSA Claims Without Any Evidence Is Not Enough to Meet "Bad Faith" Standard for Awarding Attorneys' Fees to Opponent*, NAT'L L. REV. (June 14, 2022), https://www.natlawreview.com/article/high-mountain-to-climb-filing-dtsa-claims-without-any-evidence-not-enough-to-meet [https://perma.cc/ZZ9S-UZ4N] ("Litigators know it is generally not easy to recover attorneys' fees in defense of a trade secret misappropriation action." (discussing TransPerfect Glob., Inc. v. Lionbridge Techs., Inc., No. 19-CV-3282, 2022 WL 2199344 (S.D.N.Y. May 31, 2022))).

348. Some of the contracts we reviewed state that the employee will not be liable if they use or disclose information that has *since* become public through no fault of, or due to no deliberate disclosure by, the employee. *See, e.g.*, Employee Confidentiality, Non-Solicitation, and Non-Competition Agreement § 1, Tangoe, Inc. v. Miller, No. 16-CV-1102 (D. Conn. June 30, 2016) (providing that confidentiality "shall not apply to any information, which is now in, or subsequently comes into, the public domain provided that I have not disclosed or caused to be disclosed such information so as to make it public"). But most of the agreements in our dataset are drafted to last forever and do not even contain this built-in end date.

349. *See* cases and commentators cited in Section II.B.1.

This is highly concerning in light of our study's conclusions about the sweeping breadth of these agreements in practice. The time has come to change the default rule to one of *un*enforceability. We are inspired by the fact that some courts have begun to move in this direction. California courts have begun to identify overbroad confidentiality agreements as de facto noncompetes that run afoul of California's statutory ban.[350] Wisconsin courts have held that confidentiality agreements that claim beyond trade secrecy trigger the same reasonableness requirements as noncompetes.[351]

But we propose a simpler framework that will lead to better outcomes for both workers and employers. The burden should *always* be on employers to prove that a confidentiality agreement that protects more than trade secrets is enforceable. Employers should have to prove that such an agreement is reasonably related to protecting legitimately secret information—information that is neither publicly available nor generally known to people in the field—and that it does not have the effect of a noncompete, such as by preventing a person from using or sharing their general knowledge, skill, and experience in a new job.

This framework does not cast doubt on the ability of a trade secret owner to use contracts to shore up trade-secrecy protections. Confidentiality agreements that adhere strictly to the contours of trade secrecy survive. Nor would this framework invalidate *all* confidentiality agreements that cover more than trade secrets. In fact, as discussed below, there are several categories of non-trade-secret information that can be protected, so long as the information is meaningfully secret and the agreement does not have the effect of a noncompete. All else being equal, these should be enforceable.[352] Finally, once again, this discussion is largely inapplicable outside the employment context. It does not apply to business-to-business agreements, which do not implicate the same concerns about employee mobility and unequal bargaining power that shape employment contracts. We do not tackle those business-to-business agreements here.[353]

That being said, if an employer seeks to enforce a confidentiality agreement that covers more than trade secrets, the employer should have the following burdens.

350. *See* Brown v. TGS Mgmt. Co., 57 Cal. App. 5th 303, 317-18 (Ct. App. 2020), *as modified on denial of reh'g* (Nov. 12, 2020).

351. *See, e.g.*, Nalco Chemical Co. v. Hydro Techs, Inc., 984 F.2d 801, 803-04 (applying Wis. Stat. § 103.465 to confidentiality agreements that protect more than trade secrets).

352. Importantly, a confidentiality agreement that survives our noncompete-law-based framework may still be unenforceable for some other reason. For example, some "hush contracts" that prevent disclosure of instances of sexual harassment in a workplace might be illegal under a jurisdiction's laws or void for public policy. *See infra* note 417.

353. *See, e.g.*, *supra* notes 50 and 215 and accompanying text.

A. *Legitimate Interests – Do They Protect Trade Secrets or Legitimately Secret Information?*

First, the employer must demonstrate that a confidentiality agreement is necessary to protect a "legitimate business interest" of the employer and that this interest justifies imposing a confidentiality obligation. In noncompete law, trade secrets are the gold standard for what counts as a legitimate business interest, but courts also recognize other interests, such as protecting the employer's "confidential information" or "goodwill," or compensating the employer for "extraordinary" investments in worker training.[354]

For confidentiality agreements, it is quite simple. There are really only two business interests that justify imposing a nondisclosure or nonuse obligation for purposes of preserving confidentiality – protecting trade secrets as defined under federal or state law and protecting *legitimately* secret information. Information can be legitimately secret under this framework, even if it is not technically a trade secret, so long as it is not publicly available or generally known in the industry.

The whole purpose of a confidentiality agreement is to preserve secrecy by preventing disclosure or unauthorized use of information that is not otherwise public or well known in the field. Any other interests that might potentially support imposing a noncompete restriction do not make sense in this context. The information must be meaningfully secret, or else the employer does not have a reason to enforce a restriction designed to preserve secrecy.

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354. *See* Arnow-Richman, *supra* note 11, at 1176 & n.38*; see also* William G. Porter II & Michael C. Griffaton, *Using Noncompete Agreements to Protect Legitimate Business Interests*, 69 DEF. COUNS. J. 194, 195-96 (2002) (discussing which business interests justify enforcing noncompetes); Rametta, *supra* note 248, at 2724-25 (discussing different approaches to noncompetes). It is generally accepted that a naked assertion that an employee has acquired general knowledge, skill, and experience at their employer's expense is *not* a legitimate business interest that justifies asking a worker to sign a noncompete. *See* Arnow-Richman, *supra* note 11, at 1177 ("To legitimize a noncompete agreement based on business information, an employer must do more than simply supply the employee with general training or experience; it must demonstrate that the employee was privy to trade secrets or other confidences."). That said, some states have permitted extraordinary investments in training to qualify as a legitimate interest. *See, e.g.*, Brandon Long, Note, *Protecting Employer Investment in Training: Noncompetes vs. Repayment Agreements*, 54 DUKE L.J. 1295, 1296-97 (2005) (describing the expansion of the enforceability of noncompetes in Louisiana). We do not mean to imply here that noncompetes are rightly justified by pointing to this wide variety of other interests. Employment-law scholars have observed that there has been a concerning expansion of the types of "confidential information" that qualify to enforce a noncompete. *See* Stone, *supra* note 11, at 586-92; *see also* Arnow-Richman, *supra* note 11, at 1182 (arguing "that courts have embraced no clear rule regarding what information can be legally classified as confidential" and that justifies enforcement of a noncompete).

B. Effect on Employee's Ability to Compete – Is It a De Facto Noncompete?

Second, the employer must demonstrate that the confidentiality agreement does not act like a noncompete by restricting the employee's ability to use their general knowledge, skill, and experience. Otherwise, this should be classified as a de facto noncompete because it prevents an employee from working in their field, let alone competing with their former employer. De facto noncompetes are per se unenforceable in states where noncompetes are banned. In California, a de facto noncompete is void under Section 16600.[355] In jurisdictions where noncompetes are enforceable subject to reasonableness requirements, a de facto noncompete is likely to be unenforceable under the jurisdiction's noncompete rules – for example, because it lacks a durational or geographic limit.[356]

In theory, employers in jurisdictions that permit reasonable noncompetes could place a durational or geographic limit on a broadly drafted confidentiality agreement, hoping a court will deem it "reasonable," even if it has the effect of a noncompete.[357] However, our view is that a court should not perform a reasonableness analysis at all in this scenario. Employees cannot be expected to know that provisions with titles like "Confidentiality," "Confidential Information," or "Nondisclosure," in fact impose back-door noncompetes on them. If the employee did not consent to a noncompete obligation – let alone a perpetual one – then the contract should simply be unenforceable.[358] Although a small minority of courts might enforce noncompetes that are not supported by separate

355. *See supra* notes 216-239 and accompanying text.

356. *See supra* notes 207, 209, and 210-213 (citing to relevant cases).

357. Many cases have noted the lack of a durational limit when finding broadly drafted confidentiality agreements unenforceable. *See* cases cited *supra* note 209.

358. The issue of whether an employee gives their consent is different from the issue of whether the substantive restrictions in the contract are in violation of public policy. We recognize that modern trends in contract law would make a defense based *purely* on a lack of consent difficult. *See, e.g.*, Chunlin Leonhard, *The Unbearable Lightness of Consent in Contract Law*, 63 CASE W. RSRV. L. REV. 57, 71-75 (2012) (noting that consent-based defenses tend to fail because courts give deference to the written agreement and the parties' signatures as evidence of consent). However, as Katherine V.W. Stone has observed, with noncompetes, courts do not adopt a pure "consent-based" approach; they also assess reasonableness and broader public-policy concerns. *See* Stone, *supra* note 11, at 578-80 (explaining that a "consent-based approach to noncompete and nondisclosure covenants" helps courts "ensure that a covenant was not buried in fine print in an employment handbook or otherwise hidden from view," but that, "with covenants not to compete, the existence of the agreement is only the beginning of a court's analysis").

consideration, no court should enforce a noncompete of which the employee did not have meaningful notice.[359]

C. Duration—Is It Still Secret?

Duration is a crucial factor in determining enforceability of noncompetes.[360] However, duration has far less salience for confidentiality agreements than it does for noncompetes. Confidentiality agreements occasionally contain specific geographic or time limits.[361] But most do not. This makes sense, because the threat of disclosure is global and can, in theory, last forever. As one court astutely put it, "the imposition of geographic or durational limitations" into confidentiality agreements could "defeat the entire purpose of restricting disclosure [of information], since confidentiality knows no temporal or geographical boundaries."[362]

Therefore, confidentiality agreements should not have to contain a specific duration. Instead, the key should be whether the information is still secret when the employee seeks to use or disclose it.[363] Secrecy can be lost over time. If the information is no longer secret, then a confidentiality agreement cannot legitimately restrict its use or disclosure. Some agreements explicitly adopt this limitation.[364] But most are written to last forever. The rule should be that the

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359. *See, e.g.*, Michael J. Garrison & John T. Wendt, *Employee Non-Competes and Consideration: A Proposed Good Faith Standard for the "Afterthought" Agreement*, 64 U. KAN. L. REV. 409, 414, 427 (2015).

360. Some states have specific durational limits. *See, e.g.*, OR. REV. STAT. ANN. § 653.295(3) (West 2022) (stating that noncompete terms "may not exceed 12 months from the date of the employee's termination"); MASS. GEN. LAWS ch. 149, § 24L (2018) (stating that noncompete terms generally cannot "exceed 12 months from the date of cessation of employment").

361. Exhibit B, Sourcing Agreement at 3, Identity Stronghold LLC v. Zeidner, No. 16-cv-00868 (M.D. Fla. June 28, 2016) (providing that its confidentiality obligations last for "three (3) years following termination" with respect to non-trade-secret information).

362. Bernier v. Merrill Air Eng'rs, 770 A.2d 97, 103-04 (Me. 2001) (internal quotation marks omitted); *see also* Moss Holding Co. v. Fuller, No. 20-cv-01043, 2020 WL 1081730, at *9 (N.D. Ill. Mar. 6, 2020) (holding that Illinois law does not render confidentiality agreements unenforceable "for lack of durational or geographic limitations"); Omnisec Int'l Investigations, Inc. v. Stone, 101 Va. Cir. 376, 2019 WL 3892839, at *3, *5 (Mar. 26, 2019) (upholding a nondisclosure agreement without time or geographic limit given that it was limited to "'confidential/and or proprietary information'" and did not suffer from "overbreadth").

363. This is similar to the approach adopted in the Georgia statute, mentioned above, which provides that a confidentiality agreement can last "for so long as the information or material remains confidential or a trade secret, as applicable." GA. CODE ANN. § 13-8-53(e) (2012).

364. For example, one agreement in our dataset provides that its confidentiality obligations last "until such information will have become generally available public knowledge." Exhibit A,

information must be a trade secret, or at least not public or generally known, *at the time the employee seeks to use or disclose it.* If it is not, then the company cannot rationally claim it is legitimately trying to preserve the information's confidentiality.

D. *Recommended Exclusions*

It follows from this that certain categories of information are not legitimate and should be expressly excluded from confidentiality agreements entered in the employment context. Some jurisdictions have "blue pencil" rules that may allow courts to modify "unreasonable" confidentiality provisions in order to make them enforceable.[365] But even in these jurisdictions, it would be prudent for employers to formally exclude certain information to improve the quality of their agreements and to enhance the chances they will be enforceable.

1. *Public or Generally Known Information*

The most obvious exclusion is information that is publicly available or generally known to persons in the employer's industry. This sort of information cannot legitimately be protected through an agreement whose ostensible purpose is to preserve confidentiality. Doing so would result in a needless and unjustifiable restriction on competition. It is also likely to render the agreement unenforceable. As occurred in *TLS Management,* courts may refuse to enforce broadly drafted nondisclosure provisions that fail to carve out "general knowledge acquired by the employee" or "information that 'is not in fact confidential,' because it is public knowledge."[366]

As explained in Section III.B, there is good reason to believe that many confidentiality agreements currently do not exclude these categories of information. Nearly 40% of the agreements in our dataset contain no exclusions, even for public or generally known information.[367] This is a problem for workers and for

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Agreement Related to Inventions, Disclosure, and Competition at 1, Rotation Dynamics Corp. v. Haas, No. 16-cv-01737 (N.D. Ill. Feb. 6, 2017).

365. For example, Georgia has adopted a "blue pencil" rule stating "that a court may modify a covenant that is otherwise void and unenforceable so long as the modification does not render the covenant more restrictive with regard to the employee than as originally drafted by the parties." GA. CODE ANN. § 13-8-53(d) (2012); *see also* Barnett & Sichelman, *supra* note 11, at 1031 (discussing how courts can "rescue" an "otherwise invalid compete clause" by imposing durational, geographic, or other restrictions that make the clause reasonable).

366. TLS Mgmt. & Mktg. Servs., LLC v. Rodríguez-Toledo, 966 F.3d 46, 58-59 (1st Cir. 2020) (internal citations removed).

367. *See supra* note 323 and accompanying text.

employers. If employers wish their confidentiality agreements to be enforceable, they should include exclusions for public or generally known information.

These exclusions can be part of the definition of confidential information itself. For example, a Charles Schwab agreement defines "Confidential Information," in relevant part, as "all information learned during my employment . . . that is not generally known to the public."[368] Alternatively, these exclusions can be separately delineated. For example, a Medidata Solutions agreement contains several well-defined exclusions, including "any information which . . . is or becomes publicly known . . . through no wrongful act of the Employee."[369]

2. *Required by Law*

A confidentiality agreement also should contain an exclusion stating that the agreement does not prevent disclosures that are required by law. Surprisingly, we found that only 22% (98 out of 446) of the confidentiality agreements in our dataset expressly allowed for disclosure when required by law, such as in response to a validly issued subpoena. We strongly recommend including an "except as required by law" exclusion.

The effect of such an exclusion is to clarify that employees can disclose covered information when it would be a violation of positive law for the employer to prevent them from doing so. For example, some states have labor laws that make it illegal for an employer to prevent an employee "from disclosing the amount of his or her wages."[370] At the federal level, the National Labor Relations Act, which protects employees' ability to organize, has been read to limit the enforceability of confidentiality agreements that prevent workers from speaking negatively about their employer.[371] Many courts have declined to enforce

368. Exhibit A, Confidentiality, Nonsolicitation, and Intellectual Property Ownership Agreement at 1, Charles Schwab v. LaGrant, 483 F. Supp. 3d 625 (E.D. Wis. 2017) (No. 17-cv-00340).

369. Exhibit B to the Complaint, Confidentiality and Proprietary Information Deed at 3, Medidata Sols., Inc. v. Veeva Sys. Inc., No. 17-cv-00589 (S.D.N.Y. Jan. 26, 2017).

370. *See, e.g.*, CAL. LAB. CODE § 232(a) (West 2023) ("No employer may . . . [r]equire, as a condition of employment, that an employee refrain from disclosing the amount of his or her wages.").

371. In a recent decision, which may yet be reviewed, the National Labor Relations Board (NLRB) found an employer violated the National Labor Relations Act by including "Confidentiality" and "Non-Disclosure" provisions in employee severance agreements that prevented the employees from making statements that could "disparage or harm the image" of their former employer. The NLRB held that these confidentiality obligations interfered with the employees' Section 7 rights to organize. *See* McLaren Macomb, 372 N.L.R.B. No. 58, at 2, 6-7 (Feb. 21, 2023), *petition for review docketed,* McLaren Macomb v. NLRB, No. 23-1403 (6th Cir. May 3, 2023); *see* 29 U.S.C. § 157 (2018).

confidentiality agreements that prevent disclosures that are ordered by a court.[372] In all these circumstances, an "except as required by law" provision would give employees notice of their legal rights to disclose certain information in specific circumstances, and would also likely improve the contract's chances of being enforceable.

What should an "except as required by law" exclusion look like? This depends on what laws are in place in the jurisdiction that protect employee disclosures. At minimum, the exclusion should clarify that the employee's confidentiality obligations will not apply "if and to the extent disclosure is specifically required by applicable law."[373] The exclusion might also include language stating that the employee's confidentiality obligations will not apply to "any disclosure or use . . . required by the order of a court of competent jurisdiction or an appropriate regulatory authority."[374] Employers may also wish to include a specific provision stating that the employee's confidentiality obligations are not intended to prevent the employee from making disclosures that quality for immunity under the DTSA's whistleblower provision.[375]

There is virtually no cost to including these exclusions. A confidentiality agreement cannot be enforced anyway to the extent that it illegally prevents a disclosure that is required by law. These exclusions do not deprive employers of protective measures. For example, if the disclosure is to occur in a court proceeding, the employer can seek a protective order to protect the information from further disclosure.[376] The agreement can also ask the employee to provide the employer with "prompt notice" if they choose to make such a disclosure, so that the employer "may seek a protective order."[377]

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372. For example, in *Farmers Group, Inc. v. Lee*, a Kansas appeals court held that under Kansas law an employer cannot enforce a confidentiality agreement in a way that would prevent an ex-employee from testifying in court in connection with claims brought against the former employer. 28 P.3d 413, 419-20 (Kan. Ct. App. 2001).

373. Retention Agreement, *supra* note 342 § 6(e).

374. Confidentiality and Proprietary Information Deed, *supra* note 369, at 3.

375. As mentioned in Section II.A, the DTSA contains a new provision that expressly preempts state trade secret claims brought against "whistleblowers" who are seeking to report a suspected violation of law, and this may also apply to contract claims. *See supra* note 153.

376. *See* UNIF. TRADE SECRETS ACT § 5 (UNIF. L. COMM'N 1985) ("[A] court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders . . . ."); *see also* Rebecca Wexler, *Life, Liberty, and Trade Secrets: Intellectual Property in the Criminal Justice System*, 70 STAN. L. REV. 1343, 1409-10 (2018) (observing that trade secret holders can disclose information for public purposes, such as in service of criminal defense, while also relying on protective orders to prevent further disclosure).

377. Retention Agreement, *supra* note 342 § 6(e).

3. *General Knowledge, Skill, and Experience*

Risk-averse employers, especially in states like California, may also wish to include express carve-outs stating that the confidentiality agreement does not restrict an employee's ability to use or share their general knowledge, skill, and experience in subsequent jobs.

The overwhelming majority of confidentiality agreements in our dataset did *not* have any express carve-out for general knowledge, skill, and experience. We found that only 4% of agreements (18 out of 446) excluded an employee's general knowledge, skill, and experience from disclosure and/or use.

There is an argument that this exclusion is not necessary. Even though courts often say in dicta that a confidentiality agreement is unenforceable if it "has the practical effect of 'prohibit[ing] the former employee from using, in competition with the former employer, the general knowledge, skill, and experience acquired in former employment,'"[378] many courts still enforce confidentiality agreements that lack express exclusions for general knowledge, skill, and experience.[379]

However, as we have shown, some courts have found confidentiality agreements to be unenforceable because they failed to make clear that employees could use or share their general knowledge, skill, and experience after departing. The most powerful illustration is the recent California case against Google, mentioned above. Even though Google's definition of confidential information expressly excluded any information that was "generally known," the court found the confidentiality provision acted as a de facto noncompete because it indefinitely prohibited employees "from disclosing their professional experience, skills, and business knowledge with prospective employers."[380] It seems likely the agreement could have been saved if it had explicitly stated that employees could continue to use and share their general knowledge, skill, and experience.

There is also case law to this effect in states where noncompetes can be enforceable. For example, in *AssuredPartners, Inc. v. Schmitt*, an Illinois appellate court refused to enforce a confidentiality agreement that made clear that

378. *See, e.g.*, Oxford Glob. Res., Inc. v. Weekley-Cessnun, No. 04-CV-0330, 2005 WL 350580, at *2 (N.D. Tex. Feb. 8, 2005) (emphasis omitted) (applying Texas law).

379. *See, e.g.*, Revere Transducers, Inc. v. Deere & Co., 595 N.W.2d 751, 762-63 (Iowa 1999) (applying Iowa law in enforcing a confidentiality provision after finding "that the restrictions concerning disclosure are sufficiently narrow in scope such that they do not interfere with [former employees'] ability to use skills and general knowledge they acquired through employment with Revere in future employment"); Orthofix Inc. v. Hunter, 630 F. App'x 566, 574 (6th Cir. 2015) (applying Texas law in enforcing a broadly drafted confidentiality provision that was not being used to restrict use or disclosure of "publicly available information" or the employee's "general knowledge or skills").

380. *See supra* notes 230-238.

"Confidential Information" *did not include* information that "becomes generally known to and available for use by the public" through no fault of the employee.[381] The court found this exclusion insufficient because the agreement still broadly prohibited the employee from using "any information" he obtained or "any observations" he made "while working for [the employer],"[382] as well as information and customer relationships the employee already possessed before joining the company.[383] The agreement might have been saved if it had explicitly stated that the employee could continue to use the general knowledge, skill, and experience he had built up over his career.

Employers may be wary about including such a vaguely defined carve-out. But it is not impossible or unheard of to do so. To give just one example, an employment agreement from our dataset contains a confidentiality provision with language clarifying that the "Company" "recognizes that Employee has acquired special skills, unique expertise, and experience in the Business," and that the "Employee acknowledges that his education, general skills and abilities allow him to find comparable employment should the employment relationship end."[384] Even if employers choose not to include this sort of language, at minimum, the case law suggests they should avoid excessively broad definitions of "confidential information" that encompasses all knowledge in the field. Otherwise, their agreements are vulnerable to being struck down, as occurred in *Brown*.[385]

E. Confidential yet Non-Trade-Secret Information

There are several categories of non-trade-secret information that we think can be protected in a confidentiality agreement. Employees who use or disclose this information in violation of a contractual duty of confidentiality can potentially be liable for breach of contract. We discuss several examples below.

1. Nonpublic Information that Is Theoretically Readily Ascertainable Through Proper Means

The first category of non-trade-secret information that we think should potentially be protectable through a confidentiality agreement is information that

381. 44 N.E.3d 463, 475-76 (Ill. App. Ct. 2015).

382. *Id.*

383. *Id.* at 476.

384. Executive Employment Agreement at 1, 4, Specialized Ins. Servs., Inc. v. Barnum, No. 16-cv-00546 (E.D. Va. filed June 30, 2016).

385. Brown v. TGS Mgmt. Co., 57 Cal. App. 5th 303, 316-17 (2020).

is neither publicly available nor generally known, but that is theoretically "readily ascertainable through proper means."

Under trade secret law, information is deemed "readily ascertainable through proper means" if the information can theoretically be discerned quickly using purely public sources, and with little time, effort, or expense.[386] For example, if the information could be pieced together from a patent or trade journal or reverse engineered by picking apart a publicly marketed product, then it is "readily ascertainable through proper means."[387] It cannot be protected as a trade secret—even if the information is not widely known, and even if the defendant in the case did not obtain the information from these sources.

Some commentators suggest this limitation should be imported into contract law too. For example, the proposed Uniform Restrictive Employment Agreement Act (UREAA) takes the position that a confidentiality agreement is unenforceable if it restricts information that is "readily ascertainable to the relevant public."[388] In some cases, this makes sense. As discussed above,[389] information that is publicly available cannot be a trade secret and should not be protectable under a confidentiality agreement either. For example, if information is readily apparent from reading a patent or from inspecting a product sold on the open market, this information cannot be a trade secret.[390] Employees also should not be liable for breach of their confidentiality agreements based on using or disclosing this widely available information. It should not matter whether the employee in fact got this public information "in confidence" from their employer.

386. 18 U.S.C. § 1839(3) (2018); *see also* UNIF. TRADE SECRETS ACT § 1 cmt. (UNIF. L. COMM'N 1985) ("Information is readily ascertainable if it is available in trade journals, reference books, or published materials. Often, the nature of a product lends itself to being readily copied as soon as it is available on the market. On the other hand, if reverse engineering is lengthy and expensive, a person who discovers the trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering."); Hrdy & Sandeen, *supra* note 106, at 1288-89 (defining "readily ascertainable" and comparing the concept to "generally known").

387. *See* UNIF. TRADE SECRETS ACT § 1 cmt. (UNIF. L. COMM'N 1985).

388. *Uniform Restrictive Employment Agreement Act*, NAT'L CONF. OF COMM'RS ON UNIF. STATE L. (Feb. 14, 2023), https://www.uniformlaws.org/viewdocument/final-act-7?CommunityKey=f870a839-27cd-4150-ad5f-51d8214f1cd2&tab=librarydocuments [https://perma.cc/TL48-LJ3M].

389. *See supra* Sections IV.A., IV.D.1.

390. *See, e.g.*, MILGRIM & BENSEN, *supra* note 61, § 1.03 ("[T]rade secret protection for information that would be readily ascertainable from the examination of a product will be lost upon the sale or display of the product if, in fact, the sale or display permits such inspection.") (citing cases).

However, in some circumstances, contractual protection should be available, even if information is deemed to be readily ascertainable through proper means for trade secret law purposes. An example is information that was extremely costly to develop, but that can potentially be legally reversed engineered by others using public sources. Obviously, the person doing the reverse engineering is not liable for trade secret misappropriation. Reverse engineering is a legal way to obtain trade secrets.[391] But this third party's actions can potentially destroy trade secret protection against the company's own employees too. If reverse engineering becomes cheap and easy to accomplish, the information may no longer be protectable as a trade secret.[392]

It is not clear, however, why this should *also* destroy contractual liability as against the company's own employees. For example, imagine Company A has a large dataset that it spent significant time and resources developing.[393] It sells these datasets through its website to fee-paying customers under strict conditions of secrecy.[394] However, imagine that other companies figure out how to access the dataset using novel software applications ("bots"). A court might rationally decide that the datasets have been rendered "readily ascertainable through proper means," and so are no longer trade secrets—period.[395] This would mean Company A's *employees* are no longer liable for trade secret misappropriation, even if they leave and use the dataset to compete with their former employer. If there is no trade secret, there can be no trade secret

391. 18 U.S.C. § 1839(6) (2018) ("The term 'improper means' . . . does not include reverse engineering, independent derivation, or any other lawful means of acquisition . . . ."); *see also* UNIF. TRADE SECRETS ACT § 1 cmt. (UNIF. L. COMM'N 1985) (stating that discovery of trade secrets by reverse engineering is proper).

392. For a recent example of this phenomenon, see Jacob S. Sherkow, *The Myth of DNA Trade Secrets*, 75 HASTINGS L.J. (forthcoming 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4522040 [https://perma.cc/DXB4-P339]. Sherkow argues that advances in DNA-sequencing technology have rendered much genomic data that used to be a trade secret readily ascertainable through proper means.

393. Many companies compile vast amounts of information (datasets) that are not copyrightable but that are extremely costly to develop. *See* Robert C. Denicola, *Copyright in Collections of Facts: A Theory for the Protection of Nonfiction Literary Works*, 81 COLUM. L. REV. 516, 516-18 (1981); Jane C. Ginsburg, *Creation and Commercial Value: Copyright Protection of Works of Information*, 90 COLUM. L. REV. 1865, 1873-1916 (1990).

394. This is a common way to monetize datasets. *See* J.H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data*, 50 VAND. L. REV. 51, 59-60 (1997).

395. Note that a court might consider using the bots to be an "improper means." *See* Compulife Software Inc. v. Newman, 959 F.3d 1288, 1314-15 (11th Cir. 2020) (reversing the lower court's holding that insurance quotes accessed from the website using "bots" were not trade secrets because they were readily ascertainable through "proper means," and stating that "the simple fact that the quotes taken were publicly available does not *automatically* resolve the question in the defendants' favor," so "[t]hese issues must be addressed on remand").

misappropriation. But does this mean Company A's employees cannot be liable for breach of their confidentiality agreements? Does this mean all potential breach-of-contract claims against Company A's employees are suddenly extinguished?

Maybe the answer should sometimes be "yes." But these are difficult questions that we think courts should have some flexibility to resolve based on specific facts and circumstances. A blanket rule that says readily ascertainable information can never be protected through a confidentiality agreement does not permit nuances. Notably, some commentators have urged eliminating trade secret law's "requirement that information not be 'readily ascertainable by proper means' to qualify for legal protection."[396] What is more, not all states have adopted the not-readily-ascertainable limitation, even for trade-secrecy status. For example, California's statute does not contain the "readily ascertainable" using "proper means" component; instead, under California law, this can only be raised as an affirmative defense by a defendant who obtained the information lawfully.[397]

We do not mean to suggest that California trade secret law has it right.[398] But these outliers support our thesis that *contractual* liability, at least, may be appropriate when information is theoretically readily ascertainable through proper means, but the defendant didn't get it that way. Of course, if the agreement is acting as a de facto noncompete, then it should be invalid. But there are conceivable scenarios where readily ascertainable information could be constrained by contract without having a negative impact on the employee's ability to work and compete.

396. Unikel, *supra* note 13, at 876 (arguing that there is "no rational or reasonable argument as to why an individual or corporate actor should be permitted to employ improper 'short cuts' to acquire commercial knowledge . . . simply because that actor theoretically *could* have obtained the knowledge through proper means").

397. CAL. CIV. CODE § 3426 (West 2023); Advisory Comm. on Civ. Jury Instructions, *Judicial Council of California Civil Jury Instructions*, JUD. COUNCIL CAL. 1247 (Dec. 2022), https://www.justia.com/trials-litigation/docs/caci/4400/4420 [https://perma.cc/3QXM-LG6V]; *see also* James H. Pooley, *The Uniform Trade Secrets Act: California Civil Code 3426*, 1 SANTA CLARA HIGH TECH. L.J. 193, 198-99 (1985) (discussing California's elimination of the "readily ascertainable" limitation, but arguing that defendants should be able to raise as a *defense* that the information could have easily been recreated using public sources so long as the effort required to discern it "is relatively small"). Illinois also does not adopt the not-readily-ascertainable language. *See* 765 ILL. COMP. STAT. § 1065/2(d)(1) (2023).

398. James H. Pooley has argued California courts' current approach is flawed because they do not permit defendants to raise as a defense that information was readily ascertainable *unless* the defendant got it from readily available sources. *See* James H. Pooley, *The Messy Process of Making and Applying the Law*, IPWATCHDOG (Mar. 29, 2023, 1:15 PM), https://ipwatchdog.com/2023/03/29/the-messy-process-of-making-and-applying-the-law/id=158482 [https://perma.cc/TCK4-MLSV].

2. *Information that Is Not Subject to Reasonable Secrecy Precautions*

Information that is not subject to "reasonable measures" to preserve its secrecy cannot be a trade secret.[399] Should this standard be protectable through contract? Richard F. Dole, Jr. has suggested that reasonable measures to preserve secrecy should be a criterion for enforceability of a nondisclosure agreement.[400] Similarly, Rex N. Alley contends courts should at least consider whether "plaintiffs undertook reasonable efforts to maintain the confidentiality of the information."[401] Alley observes this requirement "gets at not only the secrecy of [the information] but also at its value: even if information is actually confidential and there is no evidence it has been widely disclosed, a court may rightly ask how valuable it is if the business has not tried to protect it."[402]

There is some case law that takes this approach. For example, in Illinois, a line of cases has held that an employer seeking to use a confidentiality agreement to prevent disclosure of information that does not "rise . . . to the level of a trade secret" is "required to demonstrate that it has made reasonable efforts to protect the confidentiality of the information."[403] These courts' reasoning is that when a plaintiff is seeking to preserve the secrecy of information, whether under trade secret law or contract law, the plaintiff should not get the benefit of legal protection if they have "not thought 'enough of [the information] to expend the resources on trying to prevent lawful appropriation of it.'"[404]

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399. 18 U.S.C. § 1839(3)(a) (2018); *see also* UTSA § 1(4)(ii) (UNIF. L. COMM'N 1985) (stating that a trade secret "is the subject of efforts that are reasonable under the circumstances to maintain its secrecy").

400. *See* Dole, *supra* note 22, at 20-21 (arguing that a nondisclosure agreement should "use conventional definitions of 'trade secret' and 'confidential information,'" and, among other things, be "supported by employer practices that both identify and safeguard the confidentiality of the protected information").

401. Alley, *supra* note 22, at 865.

402. *Id.*

403. *See, e.g.*, CUNA Mut. Life Ins. Co. v. Kuperman, No. 97 C 6228, 1998 U.S. Dist. LEXIS 622, at *22 (N.D. Ill. Jan. 20, 1998) (citing Illinois cases).

404. *Id.* (quoting Curtis 1000, Inc. v. Suess, 24 F.3d 941, 947 (7th Cir. 1994)); *see also* Tax Track Sys. Corp. v. New Inv. World, Inc., 478 F.3d 783, 787 (7th Cir. 2007) ("[Illinois courts] will enforce [confidentiality agreements] only when the information sought to be protected is actually confidential and reasonable efforts were made to keep it confidential."); *cf.* Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991) (reasoning that if a trade-secret plaintiff "expended only paltry resources" preventing its secrets from falling into the wrong hands, "why should the law, whose machinery is far from costless, bother to provide . . . a remedy?").

That said, the requirement to take reasonable secrecy precautions is a trade-secret-law standard, not a contract-law standard.[405] From a policy perspective, otherwise-secret information that was not subject to reasonable secrecy precautions seems like the easiest category to *not* exclude from contract protection. If there is a contract in place supplying some degree of notice to the employee, and the information remains nonpublic and is not part of the employee's general skill, knowledge, and experience, there seems little harm in enforcing the contract. In fact, some commentators have argued that reasonable efforts to preserve secrecy should not be a criterion for trade secrecy either. Mark A. Lemley contends that "while proof that the plaintiff's information is secret serves a critical role . . . the same is not necessarily true of the parallel requirement that trade secret owners take reasonable efforts to protect their secrets."[406] The law should not establish a "minimum investment level as an end in itself."[407]

There are also risks to using the employer's reasonable secrecy precautions as a benchmark for contractual protection. Contracts have become the standard way to prove an employer took reasonable secrecy measures.[408] Thus, courts may be tempted to use the existence of confidentiality agreements alone, rather than true secrecy, to show plaintiffs deserve legal protection.[409]

In sum, in jurisdictions where courts have found reasonable precautions to be necessary, excluding them from the face of the contract would be wise. But it is not apparent why taking reasonable secrecy measures should be a global requirement for enforcing a confidentiality agreement.

3. *Information that Fails to Derive "Independent Economic Value" from Secrecy*

A final category of non-trade-secret information that can be protected under a confidentiality agreement is information that fails the statutes' "independent

405. *See* Alley, *supra* note 22, at 864 (stating that courts may focus on reasonable efforts made to keep information secret but proposing courts instead take a holistic approach to evaluating confidentiality agreements).

406. Lemley, *supra* note 70, at 348-49.

407. *Id.*

408. Varadarajan, *supra* note 4, at 1557-58.

409. *Cf.* Hrdy & Lemley, *supra* note 23, at 33-35 (discussing how courts use reasonable secrecy precautions to presume other elements are present such as value); *see also* Badger Daylighting Corp. v. Palmer, 2019 WL 4572798, at *8 (S.D. Ind. Sept. 20, 2019) (granting preliminary relief under trade secret and contract law upon mere showing of reasonable secrecy precautions, stating that in such circumstances, "Indiana courts have consistently found a reasonable likelihood that non-disclosure provisions were breached and the IUTSA was violated").

economic value" requirement.[410] To be a trade secret under the UTSA and DTSA, information must derive "independent economic value, actual or potential," from being kept secret.

Some information fails this requirement, even if it is secret to the firm.[411] There are many examples of secret information that does not derive independent economic value from secrecy, but that employers contractually require their employees to keep secret. Examples include: unsavory insights about a company's employment practices that are irrelevant to the business, but which the company does not wish to be publicly revealed;[412] personal health information[413] that regulators require companies to keep secret, but which does not provide an economic advantage to others due to its secrecy;[414] and outdated or obsolete information whose independent economic value has long expired, but that the company still chooses to retain in secret.[415]

This is all non-trade-secret information, but it is not public or generally known outside the company. We think an employee's or former employee's disclosure of this type of information can potentially serve as the basis for a breach-

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410. *See generally* Hrdy, *supra* note 90 (describing how trade secrecy does not protect mere secrets, but only secrets that provide some amount of economic advantage to those holding the secrets relative to those who do not); Yield Dynamics, Inc. v. TEA Systems Corp., 66 Cal. Rptr. 3d 1, 15-18 (Ct. App. 2007) (finding software code failed to derive independent economic value from secrecy under California UTSA because plaintiff failed to prove it derived an economic advantage from retaining the secrecy of those eight code routines).

411. *See* Hrdy, *supra* note 90, at 593-604 (providing a typology of "value failures," including amount failures, causation failures, type failures, and timing failures).

412. *See* Charles Tait Graves & Sonya K. Katyal, *From Trade Secrecy to Seclusion*, 109 GEO. L. J. 1337, 1337 (2021); Jamilah Bowman Williams, *Diversity Statistics as a Trade Secret*, 107 GEO. L.J. 1684, 1687 (2019). One of us has classified reputationally harmful information—such as "the fact that a company is breaking the law" or "embarrassing" facts about a company, like low diversity statistics— as a "type" failure. This information simply has the wrong *type* of value, even if it is very deliberately kept secret, so it should not qualify as a trade secret. Hrdy, *supra* note 90, at 599-602.

413. *See* Health Insurance Portability and Accountability Act (HIPAA) of 1996, Pub. L. No. 104-191, 110 Stat. 1936; HIPAA Privacy Rule, 45 C.F.R. § 160 et seq. (2022); *see also* Charlotte A. Tschider, *Enhancing Cybersecurity for the Digital Health Marketplace*, 26 ANNALS OF HEALTH L. 1, 13-16 (2017) (explaining the various components of HIPAA's requirements to, among other things, maintain the privacy of personal health information).

414. Hrdy, *supra* note 90, at 591-92, 599-602; *see also* Ukrainian Future Credit Union v. Seikaly, No. 17-cv-11483, 2017 WL 5665960, at *9-10 (E.D. Mich. Nov. 27, 2017) (indicating that customer information that a bank was required by regulators to keep secret is not a trade secret under DTSA, and distinguishing between information that imparts a "competitive advantage" and information whose disclosure would have negative "regulatory consequences").

415. *See* Hrdy & Lemley, *supra* note 23, at 43-44, 60-64 (discussing the phenomenon of obsolete trade secrets and observing that employees can still be liable for breach of contract even if trade secrets have become outdated or otherwise been abandoned).

of-contract claim without generating the policy concerns we discuss here. Protecting this sort of information through contract does not necessarily place employees under a de facto noncompete obligation. Our framework does not provide an obvious basis to exclude it.[416]

This does not mean we think this information is always protectable, or that protection is normatively desirable. Instead, there are other mechanisms by which confidentiality agreements can be found unenforceable. As explained above, there are many external sources of law that protect employees' ability to use or disclose facts learned on the job, such as the DTSA's whistleblower provision, which allows employees to report illegal activity, and labor laws, which require employees to be free to discuss their work conditions. Our recommended exclusion for disclosures that are "required by law" can incorporate these legal prohibitions into the contract itself. Also, crucially, even if there is no positive law in the jurisdiction that protects a certain disclosure, a court can find the contract void for public policy. Courts possess power to strike down problematic confidentiality provisions using the void-for-public-policy doctrine.[417]

F. Mechanisms for Regulating Confidentiality Provisions

There are several ways to regulate confidentiality provisions. The most logical avenue is for state legislatures to amend their noncompete statutes to explicitly include confidentiality agreements. As noted above, some states, like Georgia, have addressed confidentiality agreements in their noncompete statutes.[418] States could also adopt UREAA, which, as mentioned above, creates a default rule of unenforceability similar in spirit to what we are proposing.[419] Alternatively, or in addition, state legislatures could insert language into their trade secret statutes' preemption provisions, delineating conditions for preempting confidentiality agreements that protect non-trade-secret information, as Massachusetts has done.[420]

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416. That said, the UREAA takes the position that a confidentiality agreement is unenforceable if it restricts information that is "irrelevant to the employer's business." *See supra* note 266 and accompanying text. It is not clear where this requirement comes from.

417. *See* David A. Hoffman & Erik Lampmann, *Hushing Contracts*, 97 WASH. U. L. REV. 165, 167-68 (2019) (discussing contracts that prevent disclosure of sexual misconduct); *see also* Hrdy & Lemley, *supra* note 23, at 62-63 (proposing that courts can decline to enforce contracts as a violation of public policy when those contracts prevent disclosure of "truly expired secrets" by the former employee who invented the information and where the benefits to society from disclosure outweigh any harm to the former employer).

418. *See supra* notes 261-265 and accompanying text.

419. *See supra* note 266 and accompanying text.

420. *See supra* notes 271-272 and accompanying text.

The FTC's proposed rulemaking has opened up the possibility of reform at the federal level.[421] The proposed rulemaking is unprecedented in effectively announcing a national ban on noncompetes. Even more surprising is the FTC's planned extension of the ban to cover de facto noncompetes.[422] The proposed rulemaking purports to be based on the FTC's authority under Section 5 and Section 6(g) of the FTC Act.[423] But some have questioned the FTC's authority to make such rules and to preempt state laws that currently allow reasonably tailored noncompetes.[424] As one prescient law review article concisely put it, "[a]lthough the FTC could pursue a noncompete rule consistent with judicial precedent and the language of its enabling act, numerous legal challenges, particularly in light of modern Supreme Court justices' attitudes toward the administrative state, threaten the viability of such a rule."[425] At last report, final adoption of this rule—if it occurs—has been delayed until at least 2024.[426]

Fortunately, as this Article has shown, courts have the power and the precedent to act on their own. They can use their power to find overbroad confidentiality agreements void for public policy. They can follow the direction of courts in California and Wisconsin and rely for support on statutes regulating noncompetes. They can follow the First Circuit's approach, applying well-established common-law rules to constrain enforceability of confidentiality agreements.

CONCLUSION

Companies often use contracts to circumvent the limitations of intellectual property laws. Scholars have addressed this phenomenon in the patent-law context and the copyright context. Setting the appropriate balance is difficult and

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421. The FTC's proposed rulemaking is not the only federal option that has been proposed. For example, on February 1, 2023, a coalition of U.S. Senators and Members of the House of Representatives reintroduced a bill titled the Workforce Mobility Act, which would, among other things, ban noncompetes. The proposed bill clarifies that agreements not to disclose *trade secrets* remain unaffected by the Act. Workforce Mobility Act, S. 220, 118th Cong. § 4 (2023).

422. *See supra* note 276-279 and accompanying text.

423. 15 U.S.C. §§ 45(a)(1), 46(g) (2018).

424. *See Dissenting Statement of Commissioner Christine S. Wilson Concerning the Notice of Proposed Rulemaking for the Non-Compete Clause Rule*, FED. TRADE COMM'N (Jan. 5, 2023), https://www.ftc.gov/legal-library/browse/cases-proceedings/public-statements/dissenting-statement-commissioner-christine-s-wilson-concerning-notice-proposed-rulemaking-non [https://perma.cc/GM4J-5KRW].

425. Robert McAvoy, *How Can Federal Actors Compete on Noncompetes? Examining the Need for and Possibility of Federal Action on Noncompetition Agreements*, 126 DICK. L. REV. 651, 677 (2022).

426. *See* Papscun, *supra* note 43.

requires nuance. This Article strives to find the appropriate balance for contractual protection for trade secrets and confidential information.

The Article has made two main contributions. First, we provide empirical support for the view that confidentiality agreements in the employment context are drafted to be extremely broad. They almost always go beyond trade secrecy. Some are so broad that they impose noncompete-like obligations on workers by preventing them from using or sharing general knowledge in the field. This is a serious problem because, regardless of one's views on the costs and benefits of noncompetes, everyone agrees that noncompetes cannot be enforced without legal limits. If confidentiality agreements can be written so broadly that it is virtually impossible to work in the same field—let alone compete—without being in breach, then employers can get around legal restrictions on noncompetes by using confidentiality agreements.

Second, we contend that regardless of whether the FTC or lawmakers end up regulating in this area, courts can and should act. At least some courts have begun to do so, and more can follow suit. Building on the trends in the courts, as well as on recent proposals from the FTC and the ULC, we provide guidance on how to address confidentiality agreements in employment contracts in the future. We propose a default rule of unenforceability. Employers should have the burden to prove the enforceability of confidentiality agreements in employment contracts that go beyond trade secrecy. Employers should have to prove, first, that the agreement does not go beyond protecting legitimately secret information (either trade secrets or information that is neither public nor generally known); and, second, that the agreement is not acting as a de facto noncompete by preventing an employee from using their general knowledge, skill, and experience in future endeavors. If the employer wishes, they can ask the employee to sign a "real," narrowly tailored noncompete, to the extent noncompetes are permitted in their jurisdiction.

The result will not be to strike down all confidentiality agreements, and it will not materially affect the ability of trade secret owners to use confidentiality agreements to preserve their secrets. Rather, the result will be to weed out poorly drafted confidentiality agreements that have the effect of perpetual noncompetes but were never bargained for.