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**Licensing Executives Society (USA & Canada), Inc.**

In response to the FTC's Proposed Rule to Ban Non-Compete Clauses

We are writing on behalf of the Licensing Executives Society (USA and Canada) Inc. ("LES"). We thank the Federal Trade Commission ("FTC") for this opportunity to comment on the FTC's Proposed Rule to Ban Non-Compete Clauses. While the FTC's objective is laudable, LES is of the view that the proposed Rule is unduly broad, and does not adequately take into account the many valid and meritorious reasons for relying on non-compete agreements.

As discussed below, a blanket ban on non-compete clauses will leave employers without adequate tools to protect their intellectual property ("IP") and will expose employees to risk. That will inhibit innovation, restrict the professional growth and training of employees, harm entrepreneurs—in particular, small businesses—and lead to increased incidence of unfair competition and unjust enrichment. That is contrary to the FTC's mandate and mission statement.

## About LES

For over 50 years, LES has been a leading professional association for business leaders and those engaged in innovation, intellectual property protection, business development and formation, and IP valuation. The group brings professionals together to network, collaborate, educate, and share best practices. Its membership includes over 2000 professionals, including individual inventors and entrepreneurs, lawyers, economists, and senior executives from the private sector, government labs, and academic technology transfer offices.

LES informs the public, the business community, and governmental bodies as to the economic value and societal benefits of IP, and associated business transactions involving IP, including domestic and international licensing of IP rights and technology transfer. Among its various activities, LES advocates for IP ecosystems that promote innovation and support innovators.

## A Blanket Ban on Non-Compete Clauses Will Harm IP Owners and Diminish Innovation

Entrepreneurs seeking to commercialize IP, as well as the investors who support them, need reasonable assurances that their significant investments will not be lost due to unfair competition. This is one reason why, as the FTC notes in its preamble to the proposed Non-Compete Clause Rule, "Nearly all states recognize the protection of an employer's trade secrets as a legitimate interest." While courts generally do not recognize protection from ordinary competition as a legitimate business interest, the FTC also notes that unfairly using someone else's trade secrets and IP is not "ordinary competition."

There is no disputing that some employers rely on non-compete clauses that are unduly broad. There also is no disputing that most employees do not intend to steal trade secrets from, or compete unfairly, with their former employers. But many employers do have valuable trade secrets and other forms of intellectual property that require protection, including by contract. And many well-meaning employees do not understand the scope of non-disclosure agreements they sign or the nuances of trade secrets; for example, what is or is not a trade secret or confidential information, or what constitutes misappropriation of IP rights. A balance between the legitimate property rights of employers and the protection of the employees' freedom to move within their professional field is essential. A blanket ban on non-compete clauses does not strike the proper balance, and fails to take into account the practicalities of the market and the nuances of IP protection.

It is widely recognized by lawmakers and scholars alike that non-compete clauses serve a legitimate purpose. The FTC implicitly acknowledges this in the preamble to its proposed rule, when it states:

> In the 47 states where at least some non-compete clauses may be enforced, courts use a reasonableness inquiry to determine whether to enforce a non-compete clause, in addition to whatever statutory limits they are bound to apply. While the precise language of the test differs from state to state, states typically use a test similar to the test in the Restatement (Second) of Contracts:
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> > A promise to refrain from competition that imposes a restraint that is ancillary to an otherwise valid transaction or relationship is unreasonably in restraint of trade if (a) the restraint is greater than is needed to protect the promisee's legitimate interest, or (b) the promisee's need is outweighed by the hardship to the promisor and the likely injury to the public.

If at least 47 states permit non-competes to some extent, it cannot reasonably be argued that a blanket ban on non-compete clauses is essential to protect the public interest. Though many states restrict non-compete agreements to some degree, they recognize that some restraints may be appropriate to protect the employer's legitimate interests, and that the need for such protections outweighs by any hardship to the employee or injury to the public. The authors of the Restatement recognize this as well.

The FTC suggests that employers can protect their legitimate interests using non-disclosure agreements or other agreements short of non-competes. In many cases, however, such protection is not adequate. For example, the law generally recognizes the utility of a non-compete clause where the employee is being hired away specifically for the employee's knowledge and versatility with the trade secrets and know-how the employee acquired during prior employment. This is especially so where the employee cannot effectively discharge the duties to be assigned by the new employer without resort to that information or skill set. In such instances, the non-compete clause can protect the former employer, and likewise protect the employee from the unscrupulous practices of a subsequent employer.

Non-disclosure agreements can be a useful tool, but even well-meaning employees often misunderstand them. What is or is not a trade secret, or what is or is not confidential or proprietary information is not always evident to the employee. As a result, valuable trade secrets and know-how can be readily, if unwittingly, revealed, at great cost to the former employer, and yielding an unfair advantage for the new employer. This can result in expensive litigation that is not in anyone's best interests.

Resort to non-disclosure agreements is generally inadequate to protect the interests commonly at stake. Trade secrets and know-how are often valued in the millions of dollars. A non-disclosure agreement is commonly effected between an employer and an individual employee. The only recourse the employer has for a breach of the non-disclosure agreement is against the individual employee. Very few individuals have the resources necessary to adequately compensate the trade secret owner for the loss of that trade secret. The trade secret owner would have no recourse against the new employer, who very likely has been unjustly enriched by the breach, and ironically who might be the only party capable of adequately compensating the trade secret owner for the financial loss it has suffered.

Further, the breach of the non-disclosure agreement will almost certainly take place in secret, behind the closed doors of the new employer. Worse, the breach might very well have occurred at the insistence of, or in complicity with, the new employer. All of this makes discovery of a breach, enforcement of the agreement, and adequate compensation, nearly impossible.

Finally, by taking away a valuable tool in the protection of trade secrets, know-how, and other proprietary information, innovators will be forced to more aggressively protect their trade secrets and proprietary information. They will bury those assets ever deeper within the organization, and restrict access to an ever smaller number of employees. As a result, fewer employees will be trained in the use of those technologies, and thus those resources will only be further constrained and delayed in entering the mainstream, which would otherwise inure to society's benefit. Thus, the proposed rule banning non-compete clauses would have the unintended consequence of increased secrecy of valuable technologies, taking us backwards toward the Guild system, which jealously guarded the tools of the trade and restricted the free flow of information.

The FTC's proposed rule is unduly broad, and lacks accommodation for the many situations in which non-compete clauses serve a laudable, pro-competitive, and socially beneficial purpose. Non-compete clauses preserve and protect the proprietary rights of IP owners; and, when properly prepared, protect the employee by clearly articulating the employee's rights and obligations, thereby setting boundaries on what a new employer can demand of the employee. Thus, non-compete clauses foster innovation, promote specialization, and protect both employer and employee.

Contrary to the premise underlying the proposed rule, non-compete clauses can actually promote the mobility of employees by defining the boundaries beyond which subsequent employers can hire competitors' employees without fear of suit.

Finally, LES submits that the proposed rule is beyond the FTC's statutory authority, and would conflict with well-established state laws and precedent.

For at least the foregoing reasons, the FTC should withdraw without implementing its proposed rule to ban non-compete clauses.

Thank you for considering LES's views. LES is eager to assist the FTC in its further consideration of this initiative, and we would be happy to meet with the FTC at its convenience to discuss our concerns and/or to help devise a more informed and nuanced approach to assessing the use and abuse of non-compete clauses.

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