COVENANTS NOT TO COMPETE

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I. INTRODUCTION

When I entered the job market more than fifty years ago, most people expected to work for their initial employers for their entire careers, and indeed many have done just that. Presently, that is no longer the case. Many people will change employers, and even industries, several times over their working years. This increased mobility has added greatly to the opportunities of workers, but it has also created serious problems for employers who want to protect their trade secrets, confidential information, and goodwill. To accomplish this protection, many employers require at least some of their employees to agree that they will not, upon the termination of their employment, reveal trade secrets or confidential information, or work in a similar position in a geographic area where they would have an opportunity to take away the former employer’s goodwill.

This article will discuss the enforceability of covenants not to compete when they are used in commercial business settings. There will be no discussion of the forms of relief available if a court determines that a covenant is enforceable. Also omitted from this article are noncompetition agreements which accompany the sale of a business or dissolution of a partnership. Finally, a discussion concerning covenants

1. E.g., injunction, compensatory and liquidated damages. Examples of both injunctive relief and liquidated damages are included in Washel v. Bryant, 770 N.E.2d 902 (Ind. Ct. App. 2002). In that case, Bryant worked as a hair stylist at Hi-Tek beauty salon, and she signed a non-compete agreement stating that she would not open a competing beauty shop within ten miles of Hi-Tek within the two years after her employment at Hi-Tek ended. Id. at 905. The Appeals Court determined that a liquidated damages clause within the non-compete agreement was not adequate compensation for Hi-Tek’s owner, and the court reversed the lower court’s denial of injunctive relief. Id. at 908.

2. Covenants in such situations are more readily enforced by the courts because buyer and seller, or former partners, usually have equal bargaining power, and the “good will” of the business is an important and valued asset. See, e.g., Marathon Petroleum Co. v. Chronister Oil Co., 687 F.
not to compete between professionals (attorneys, physicians, etc.) will not be a part of this current article.

In most states today, courts will enforce a covenant not to compete if the covenant is found to be “reasonable,” that is, the length of time, geographic scope, and type of activities restricted are necessary to protect the former employer’s business such as preserving the former employer’s relationships with its customers.\(^3\) In determining the covenant’s reasonableness, courts will ask two questions: (1) Does the employer have a protectable interest? and (2) Is the restrictive covenant reasonably related to protecting that interest?\(^4\)

Over the years, courts have “looked upon [non-compete] agreements with disfavor, [and they have been] cautiously considered, and carefully scrutinized.”\(^5\) Two reasons are usually given for this attitude: (1) Employees should be free to make the best possible bargain for his\(^6\) labor,\(^7\) and (2) the public has an interest in maximizing available services.\(^8\)

\(^3\) See, e.g., Showe-Time Video Rentals, Inc. v. Douglas, 727 S.W.2d 426, 433 (Mo. Ct. App. 1987). Additionally, see Thomas M. Winn, III, labor & Employment Law, 37 U. RICH. L. Rev. 241 (2002), (reviewing Mona Electric Group, Inc. v. Truland Serv. Corp., 193 F. Supp. 2d 874 (E.D. Va. 2002), which found that although the non-solicitation covenant was void, the ex-employee did not violate the covenant because the former employer’s customers contacted him rather than him soliciting the customers).

\(^4\) See generally, Overholt Crop Ins. Serv. Co. v. Bredeson, 437 N.W.2d 698, 703-04 (Minn. Ct. App. 1989) (holding that the reasonableness standard is found by examining all the relevant portions of the non-competition contract itself).

\(^5\) Bennett v. Storz Broad. Co., 134 N.W.2d 892, 898 (Minn. 1965) (citing Arthur Murray Dance Studios v. Witter, 105 N.E.2d 685, 62 Ohio L. Abs. 17 (Ohio Misc. 1952)). Additionally, see Richard E. Johnson & Richard G. Greenstein, Achieving “Victory Through Prearrangements” Supplementing Covenants Not to Compete, 22 FRANCHISE L.J. 21, 21 (2002), which generally discusses judicial disfavor of non-competition clauses. The authors note that courts look poorly upon non-competition clauses as a form of trade and that five courts have even invalidated them altogether. \(I d.\)

\(^6\) This article uses the personal pronoun he when a choice between he and she is necessary.

\(^7\) See Menter Co. v. Brock, 180 N.W. 553, 555 (Minn. 1920).

\(^8\) See Jim W. Miller Constr., Inc. v. Schaefer, 298 N.W.2d 455, 458 (Minn. 1980).
II. PROTECT GOODWILL

A restraint on post-employment competition may be justified where part of the former employee’s compensated services includes the creation of goodwill with customers or clients, who would be likely to follow the employee and patronize his competing business. A restraint is not justified if the harm to the former employer results simply from the fact that the former employee will be a competent and effective competitor. The skills, experience, and knowledge which an employee acquires during his employment are his assets, and are not a protectable business interest of his former employer. When the employment relationship ends, the employee has a right to take those assets with him. However, as I will discuss infra in Part III, an employee may not take with him the employer’s trade secrets or confidential information. It is often difficult to draw the line between knowledge, skill, and experience, on the one hand, and trade secrets and confidential

9. “‘Good will is generally understood to mean the advantage that accrues to a business on account of its name, location and reputation, which tends to enable it to retain the patronage of its old customers.'” Allied Adjustment Serv. v. Heney, 484 A.2d 1189, 1191 (N.H. 1984) (citation omitted).


A company intent on protecting its trade secrets must first identify those secrets. It must then take steps to place its employees on reasonable notice that such information is to be kept confidential, both during employment and afterwards. Otherwise, employees cannot be expected to maintain the information in confidence. The company must establish appropriate procedures to limit access to confidential information to the minimum number of employees or consultants reasonably consistent with the business needs of the company. Finally, when the employee or consultant departs, the company must get continuing agreements that the information will remain confidential.

Particular circumstances may dictate more rigorous protective measures. State law permitting, restrictive covenants may be appropriate to prevent certain employees from working in competitive positions for a reasonable period of time. Upon learning of new employment that threatens to place the first employer’s trade secrets at risk, it may be necessary to commence detailed negotiations with the new employer to ensure that the employee will not be assigned to areas that inevitably put the company’s secrets at risk. If these strategies fail, it may be necessary to commence litigation seeking an injunction against activities likely to lead to use or disclosure of trade secrets. While different secrets may dictate somewhat different strategies, the company’s overriding concern—before hiring the new employee or consultant, during employment, and upon departure—must always be to determine the most reasonable and effective way of protecting its confidential information.

Id. at 303-04.


12. Id.
information on the other.13

A. Near-Permanent Relationship With Customers

Establishing an employer’s protectable goodwill often can be accomplished by showing the employer’s “near-permanent relationship” with its customers, with whom the employee would not have dealt but for his employment.14 If the employee knew a customer prior to his employment, or if the customers’ identities could be found in telephone or trade directories, or in other public sources, the employer could not establish the “but for” requirement.15

In determining whether “near-permanent” customer relationships exist, many courts will look to the following factors:

1. the number of years required to develop the clientele;
2. the amount of money invested to acquire clients;
3. the degree of difficulty in acquiring clients;
4. the extent of personal customer contact by the employee;
5. the extent of the employer’s knowledge of its clients;
6. the duration of the customers’ association with the employer; and
7. the continuity of employer-customer relationships.16

It is not necessary for the employer to show a “customer relationship is perpetual or indissoluble, or that a nearpermanent

13. See Fowler, 598 A.2d at 798.
14. Abbott-Interfast Corp. v. Harkabus, 619 N.E.2d 1337, 1341 (Ill. App. Ct. 1993). Scholars note that the “near-permanent relationship” is one of two legitimate business interests that make covenants not to compete judicially acceptable. See Gene A. Petersen, Understanding Illinois Noncompetition Agreements and Restrictive Covenants, 89 ILL. BAR J. 472 (2001). Petersen extensively discusses trade secrets and how they alone, without a showing of a “near-permanent” relationship with the employer’s customers, can be enough of a basis to enforce a restrictive covenant. Id. at 473.
A near-permanent relationship with clients is inherent in the provision of professional services. Conversely, a near-permanent relationship with customers is generally absent from businesses engaged in sales. Moreover, a near-permanent relationship is not generally present in a business which does not engender customer loyalty by providing a unique product or personal service, and customers of the business utilize many suppliers simultaneously to meet their needs.
Id. (citing Springfield Rare Coin Galleries v. Mileham, 620 N.E.2d 479, 488-89 (1993)).
relationship existed with each customer.”17 “Nor does the employer have to have an exclusive relationship with its clients to satisfy the nearpermanent test.”18

A situation which was found by the court to satisfy the requirements for a “near-permanent” relationship can be found in McRand, Inc. v. Beelen.19 There, the employer designed and coordinated incentive award programs for businesses.20 It took one to three years to identify and develop each major account, and required an investment of about $200,000.21 Thereafter, the employer maintained continuing relations with its customers.22

Similarly, in The Instrumentalist Co. v. Band, Inc.,23 the former employee had exercised near-exclusive authority for contacting and servicing the 40 to 50 major advertisers in the former employer’s band and orchestra magazine.24 He had close personal and business ties to the people who made advertising decisions at these firms.25

B. Consideration For The Restriction

It is generally held that to be valid and enforceable, a covenant not to compete must be ancillary to the principal employment agreement.26 The basis for this requirement is to insure that the purpose of the restriction is not simply to avoid competition, but rather to protect some

18. Id. (citation omitted).
20. Id. at 1309.
21. Id.
22. Id. See also Millard Maint. Serv. Co., v. Bernero, 566 N.E.2d 379, 386 (Ill. App. Ct. 1990) (finding a near permanent relationship existed because the employer “devoted substantial resources to developing and maintaining a clientele, [and] . . . made an effort to develop and maintain close personal relationships with the decision-makers in firms that were [its] customers through social outings and personal visits. . . . Finally, five of [the employer’s] largest customers [had] done business with [the employer] in excess of 15 years”).
24. Id. at 1280-81.
25. Id. at 1281.
26. See, e.g., Marine Contractors Co., Inc. v. Hurley, 310 N.E.2d 915, 921 (Mass. 1974) (finding the covenant was ancillary to employment and enforceable); Light v. Centel Cellular Co., 883 S.W.2d 642, 648 (Tex. 1994) (finding the covenant unenforceable because it was not ancillary to an otherwise enforceable agreement). For a more elaborate discussion on Massachusetts restrictive covenants, see Christine M. O’Malley, Covenants Not to Compete in the Massachusetts Hi-Tech Industry: Assessing the Need For a Legislative Solution, 79 B.U. L. REV. 1215, 1218-23 (1999). O’Malley describes the general Massachusetts law concerning restrictive covenants and explains how the recent law has changed since the ruling in Marine Contractors. Id.
legitimate interest of the employer under the principal agreement.\textsuperscript{27} Some courts, however, have held that “[a] restrictive covenant agreement may meet the requirements for ancillarity if it is ancillary to an employment relationship even though the employment may lack a written agreement and remain at will.”\textsuperscript{28}

Most courts require that there be an adequate consideration to support a covenant not to compete.\textsuperscript{29} Where the employee agrees to the restriction at the beginning of the employment relationship, most courts hold that the employer’s promise of employment constitutes sufficient consideration to support the covenant not to compete.\textsuperscript{30} However, if the covenant is agreed to at any time after initial employment, many courts will enforce it only if new consideration was given to the employee.\textsuperscript{31} Such additional consideration may consist of an increase in compensation, a new (usually higher) position, a bonus or stock incentive program, or an extended fixed term of employment.\textsuperscript{32}

\textsuperscript{27} Marine Contractors, 310 N.E.2d at 920.


\textsuperscript{30} Nat’l Risk Mgmt., Inc., 819 F. Supp. at 429 (noting that new consideration is necessary where covenants not to compete are signed after the beginning of the employee’s employment). See In re Verdi, 244 B.R. 314, 323-24 (E.D. Pa. 2000) (noting that new consideration such as stock, special training, promotions, or pay raises would be necessary in order to complete significant consideration for these new covenants not to compete).

\textsuperscript{31} See, e.g., Sanborn Mfg. Co. v. Currie, 500 N.W.2d 161, 164 (Minn. Ct. App. 1993) (citing Nat’l Recruiters Inc. v. Cashman, 323 N.W.2d 736, 740-41 (Minn. 1982) as stating that “proof of continued employment is not enough to show sufficient consideration for a noncompetition agreement”). The court found there was no new consideration because there was “no evidence that [the employee] was promoted, or that increases in salary and supervisory duties were attributable to anything other than the performance that was expected of him under the initial employment agreement.” \textit{Id}. In fact, some scholars have noted that unless the noncompetition agreement is signed before employment begins, then some other consideration would be necessary. See William Christopher Penwell, \textit{Litigating Covenants Not to Compete}, 59 BENCH \& B. MINN. 27 (2002). Penwell notes that even if covenants not to compete are signed on the day that employment begins, a separate consideration may be necessary other than the simple promise of employment. \textit{Id}. at 27.

\textsuperscript{32} See, e.g., Modern Controls, 578 F.2d at 1267; McRand, 486 N.E.2d at 1314 (finding continued employment with greater responsibilities sufficient); Nat’l Recruiters, 323 N.W.2d at 740 (noting that promotion and increased responsibility can be sufficient, but “continued employment alone [is] not sufficient [consideration] to support [a] covenant [signed after accepting employment]”). Discussions continue on whether to abandon both the “continued consideration” doctrine and other general restrictions on restrictive covenants, particularly in the legal business setting. See Kenneth Engel, Note, \textit{Should Minnesota Abandon the Per Se Rule Against Law Firm Noncompetition Agreements?}, 23 WM. MITCHELL L. REV. 133 (1997). With more legal
continuation of employment is usually held to be insufficient consideration to support a covenant not to compete, although some courts have held it to be sufficient if the employment continues thereafter for a substantial period of time. As a corollary to this, one court stated that this requirement creates “an irrebuttable presumption that if the employee was fired shortly after he signed the covenant the consideration for the covenant was illusory.”

III. TRADE SECRETS AND CONFIDENTIAL INFORMATION

A. What is a Trade Secret?

Trade secrets have been defined as “a plan or process, tool, mechanism, compound, or informational data utilized by a person in his business operations and known only to him and such limited other persons to whom it may be necessary to confide it.” In determining what constitutes a trade secret, courts often consider the factors listed in Section 757 of the Restatement of Torts:

[1] the extent to which the information is known outside of his business; [2] the extent to which it is known by employees and others involved in his business; [3] the extent of measures taken by him to guard the secrecy of the information; [4] the value of the information to him and to his competitors; [5] the amount of effort or money expended by him in developing the information; [6] the ease or
difficulty with which the information could be properly acquired or duplicated by others.\textsuperscript{37}

Some uniformity has been brought to this area of the law by the adoption in most states of the Uniform Trade Secrets Act, (U.T.S.A.), which permits employers to bring an action based merely on a “threat of misappropriation of a trade secret.”\textsuperscript{38} The U.T.S.A. defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.\textsuperscript{39}

Unlike the requirement for patentability, novelty is not required to have a protectable trade secret, because a trade secret is not protected against independent creation, whereas a patent is.\textsuperscript{40} However, there must be some degree of novelty, since that which is generally known will not be deemed to be a secret.\textsuperscript{41}

\textsuperscript{37} Id. (quoting RESTATEMENT (FIRST) OF TORTS § 757 (1946)).


\textsuperscript{39} Id. § 1(4).

\textsuperscript{40} See, e.g., Packaging House, Inc. v. Hoffman, 448 N.E.2d 947, 948 (Ill. App. Ct. 1983) (finding that the employer’s customer list was a trade secret since it was “marked ‘Confidential’[and] . . . kept on . . . [the] premises under lock and key . . . [with a] security system” to which only certain people had access, and [that] all “costs and pricing information [was also kept] in a secured and confidential manner” so as to also be trade secrets). Unlike the limitations usually applied to noncompetition agreements, the U.T.S.A. provides that a duty or agreement to limit the use of trade secrets will “not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty.” U.T.S.A. § 1(4).

\textsuperscript{41} Note, however, that novelty is more of a gray area due to recent technological innovations. See Victoria A. Cundiff, \textit{Protecting Trade Secrets From Disclosure On the Internet Requires Diligent Practice}, 74 N.Y. ST. B.J. 8, 15 (2002) (noting that unlike patent law, where a single reference can destroy its novelty, the trade secret test is whether or not the secret is “generally known”). Simply because something is posted a number of times on the internet does not necessarily mean that it is “generally known,” however, as the internet becomes even more widespread, that idea may begin to alter. Id. at 15-16.

\textsuperscript{42} See Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 476 (1974). The novelty principal works conversely in encryption cases dealing with intellectual property rights, since no degree of novelty must be shown in order to receive copyright protection. Brian Bolinger, \textit{Focusing on Infringement: Why Limitations on Decryption Technology are Not the Solution to Policing Copyright}, 52 CASE W. RES. L. REV. 1091, 1103 (2002).
Public policy generally favors the right and opportunity for workers to better themselves by changing jobs. While it is certainly true that an employer who discloses valuable information to his employee in confidence is entitled to protection against the use of these secrets in competition with him [. . . ] the employee who possesses the employer’s most valuable confidences is apt to be highly skilled. The public is interested in the reasonable mobility of such skilled persons from job to job in our fluid society, which is characterized by and requires the mobility of technically expert persons from place to place, from job to job and upward within the industrial structure. And the employee himself must be afforded a reasonable opportunity to change jobs without abandoning the ability to practice his skills.

There is an inherent and inevitable conflict in trying to distinguish between trade secrets and the employee’s developed skills, knowledge, and experience. Public policy favors employment mobility for employees, but it also seeks to promote invention and innovation, which requires reasonable protection for the employer to assure that employees who are necessarily given the use of trade secrets are prohibited from using or disclosing them in a new position.

While historically most people have thought of “trade secrets” as being inventions or innovations in the production and distribution of products, more recently the definition of “trade secrets” has greatly expanded. It is now commonly held to include information about sales and marketing, such as pricing, information about customers, plans and strategies for new products and services, and so on.

However, as I have indicated above, since courts do not favor limiting an employee’s future work opportunities, they are likely to

42. Standard Brands, Inc. v. Zunpe, 264 F. Supp. 254, 259 (E.D. La. 1967). This policy is greatly contested by employers, however, and is one of the main motivations behind covenants not to compete. See Katherine V.W. Stone, Human Capital and Employee Mobility: A Rejoinder, 34 CONN. L. REV. 1233 (2002). Another doctrine which has helped employers cut down on employee mobility is the doctrine of inevitable disclosure in trade secret law. David Lincicum, Inevitable Conflict?: California’s Policy of Worker Mobility and the Doctrine of Inevitable Disclosure, 75 S. CAL. L. REV. 1257 (2002).
44. See PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1268 (7th Cir. 1995).
construe “trade secrets” fairly narrowly. 47 For example, in *American Shippers Supply Co. v. Campbell*, 48 the court held that the former employer did not have a “protectible interest in [its] customer lists . . . [, since the] list[s] could have been easily obtained . . . [from a] telephone directory or trade publication, [and the] lists were . . . not regarded as confidential . . . .”49 Similarly, in *Cudahy Co. v. American Labs., Inc.*, 50 the court found that a former employee “had a wealth of knowledge and expertise in production and marketing . . . [in that business] and data on profits and costs of production would be common knowledge to anyone of his experience.”51 Thus, such knowledge did not constitute a [protectible] “trade secret.”52

Protection for that which is truly secret and confidential is certainly justified. Without such protection employers would be hesitant or unwilling to impart trade secrets to employees, which would seriously impede commercial growth and progress. 53 A lack of protection could also result in inefficiency, as employers may try to reduce trade secret leakage by only allowing each employee to know part of the total process or information, thus making it impossible for anyone to take away the entire protected secret.54 Or, access might be denied to some employees even though they might well be able to use such access in their work to the employer’s advantage.55 Employees to whom secrets can be revealed can be given more important and more complex assignments and responsibilities, much to the benefit of the employer.56

**B. Inevitable Disclosure**

1. Factors Considered

Employers usually try to protect themselves from disclosure or use of trade secrets by entering into a nondisclosure agreement before,

48. *Id.*
49. *Id.* at 1044.
51. *Id.* at 1343.
52. *Id.*
54. *Id.*
55. *Id.*
56. *Id.*
during, or at the termination of the employment. Yet with or without such an agreement, and even if the former employee acts in the utmost good faith, there are situations where the employer will claim that, if the former employee is allowed to work for a competitor, it will inevitably be necessary for him to disclose or use his former employer’s trade secrets in order to properly perform his new job. Thus, in an “inevitable disclosure” case, a former employee may be prohibited from working for a competitor even though there was never a non-disclosure or noncompetition agreement and he never threatened to disclose or use trade secrets.

Among the factors which a court will consider in applying the inevitable disclosure theory are: (1) the extent of competition between the new and the former employers, (2) the efforts undertaken by the new employer to avoid disclosure of the trade secrets, (3) the similarity between the employee’s former and new positions, (4) the amount of exposure of the employee to the trade secrets, (6) the potential injury to the former employer and the advantage to be gained by the new employer, and (7) the availability from other sources of equally effective knowledge or technology that will be just as useful to the new employer as a competitor.

Where “inevitable disclosure” is found to exist, a court may issue an injunction prohibiting employment with the new employer, not just the possible disclosure of trade secrets. Several recent cases provide good examples. In *Pepisco, Inc. v. Redmond*, the employee’s “high level position . . . gave him access to inside information and trade secrets.” The employee had a confidentiality agreement with the employer as to confidential information. The court found that the

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57. See supra note 2 (discussing the same).
58. A frequently cited “inevitable disclosure” case is *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99 (Ohio App. 1963). But, the theory was recognized at least as early as *Eastman Kodak Co. v. Power Film Products, Inc.*, 179 N.Y.S. 325 (App. Div. 1919) (noting that the employee cannot fulfill a non-disclosure promise to a former employer and also fulfill his obligations to his new employer).
59. Id.
61. Some courts refuse to issue this injunction, reasoning that a “claim of trade secret misappropriation should not act as an ex post facto covenant not to compete.” *IBM v. Seagate Tech., Inc.*, 941 F. Supp. 98, 101 (D. Minn. 1992) (citation omitted).
62. 54 F.3d 1262 (7th Cir. 1995).
63. Id. at 1264.
64. Id.
employee’s knowledge of his employer’s pricing, marketing, and distribution system and plans would have value to his new employer in its planning and strategy in the near future, because the new employee could anticipate and counter the former employer’s “distribution, packaging, pricing, and marketing moves.”65 It was not enough that the employee had agreed “not to disclose any trade secrets or confidential information gleaned from his earlier employment.”66 It was inevitable that he would rely on his former employer’s trade secrets in his new job.67

In *Marcam Corp. v. Orchard*,68 the court ruled that “harm to [the former employer] can not be avoided simply by [the former employee’s] intention not to disclose confidential information, or even by his scrupulous efforts to avoid disclosure.”69 The employee would go to the competitor with full knowledge of the former employer’s “products, its development strategies, its marketing plans, its customers and other significant business information which can[not] be set aside . . . . what he knows about [the former employer] is bound to influence what he does for [the competitor],” and that will disadvantage the former employer.70

Similarly, in *Lumex, Inc. v. Highsmith*,71 the employee was the “Worldwide Marketing Manager,” [with] wide ranging duties, . . . [and] involved in top level meetings and discussions on all matters within the company, and was highly regarded by his employer.”72 The court said that “it is inevitable that [the former employee] will disclose important . . . trade secrets and confidential information [of his former employer] in his efforts to improve [his new employer’s] product, and aid his new employer and his own future.”73 Despite assurances of the former employee and his new employer-to-be that they would not use trade secrets, and “‘even assuming the best of good faith, it is doubtful whether the [former employee] could completely divorce his knowledge of the trade secrets from any . . . work he might engage in’ with [the new

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65. Id. at 1270.
66. Id.
67. Id. at 1271.
69. Id. at 297.
70. Id. The former employer had been developing a new product, and the employee had been involved in all aspects of the product. Id. at 296.
72. Id. at 625.
73. Id. at 631.
2. Negative Aspects of “Inevitable Disclosure”

There are strong arguments against applying the “inevitable disclosure” doctrine. First, it benefits employers who did not bargain for a noncompetition agreement. The employee will be bound by a court-ordered restriction without having any opportunity to negotiate (or reject) its provisions. The employer receives a benefit for which it did not pay. Second, application of the doctrine interferes with the mobility of employees, and impedes and perhaps stifles the growth and development of competitors in the marketplace. It should also be noted that the decisions in these cases usually occur at the preliminary injunction stage based, not on any wrongful conduct of the employee or the employer-to-be, but rather on the former employer’s likelihood of success. Unfortunately, that may be the end of the matter; if an

74. Id. at 636.
75. See Bennett, 134 N.W.2d at 898 (observing that contractual restraints placed upon employment are “looked upon with disfavor, cautiously considered, and carefully scrutinized”).
 See Restatement (Second) Of Contracts § 188, cmt. g (1981). This comment observes that courts closely scrutinize restraints upon employment because an employee is likely to agree to such a restriction without considering “the hardship he may later suffer through loss of his livelihood.” Courts have mirrored the Restatement in their treatment of covenants not to compete. For example, the Supreme Court of Minnesota in Bennett, when considering a covenant not to compete, observed that courts are influenced by a “concern for the average individual employee who as a result of his unequal bargaining power may be found in oppressive circumstances. While quoting Menter Co. v. Brock, 180 N.W. 553, 555 (Minn. 1920), the Bennett court noted that a person who is in urgent need of employment is unlikely to object to the terms of a contract if the wages are reasonable.

Id. (citations omitted) (emphasis added); See Bennett, 134 N.W.2d at 899.
77. Harris, supra note 76, at 345 n.11 stating:
 Restatement (Second) of Contracts § 188(1) (1981). Even if the restraint is no greater than is needed to protect the promisee’s interest, the promisee’s need may be outweighed by the harm to the promisor and the likely injury to the public. In the case of a sale of a business, the harm caused to the seller may be excessive if the restraint necessitates his complete withdrawal from business; the likely injury to the public may be too great if it has the effect of removing a former competitor from competition. . . . In the case of a post-employment restraint, the harm caused to the employee may be excessive if the restraint inhibits his personal freedom by preventing him from earning his livelihood if he quits; the likely injury to the public may be too great if it is seriously harmed by the impairment of his economic mobility or by the unavailability of the skills developed in his employment. . . . Not every restraint causes injury to the public, however, and even a post-employment restraint may increase efficiency by encouraging the employer to entrust confidential information to the employee.

Id.
injunction against accepting the new employment is granted, pending a trial on the merits, the former employer will effectively prevail if, as is common, the trial will not take place until some time in the (perhaps distant) future.

3. Possible Solution

Employers should be encouraged to make agreements concerning nondisclosure and noncompetition at the time employees are hired, not at the time of termination, or especially by a court order thereafter.\(^{78}\) This can be accomplished by the threat that only a reasonable agreement made prior to the termination of employment will be enforced, unless the employee will receive new and fair consideration for the post-employment restriction.\(^{79}\) In any case, an injunction should be granted only if it is clear that it is essentially impossible for the former employee to perform the duties of his new job without the use or disclosure of


\(^{79}\) Susan Street Whaley, Comment, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, n.16 (1999), quoting JERRY COHEN & ALAN S. GUTTERMAN, TRADE SECRETS PROTECTION AND EXPLOITATION, 8 (1998) as stating:
The decision of the drafters of the Second Restatement of Torts not to include trade secrets corresponded with the growing efforts of another legal reform movement that sought to codify various areas of law by means of uniform acts designed to be adopted by individual states.

*Id.* See JERRY COHEN & ALAN S. GUTTERMAN, TRADE SECRETS PROTECTION AND EXPLOITATION 168 (1998) (stating that it is generally easy to find adequate consideration to support an employee’s non-compete agreement when the agreement was entered into at the beginning of the employment relationship). See also Lancaster, *supra* note 77, at B1 (stating that sometimes employees are unaware that they have signed a noncompete agreement and that employees should seek consideration for signing a noncompete agreement at the beginning of the employment relationship, during the “courtship,” because this is the best time to negotiate). Courts will look more favorably on a non-compete agreement that clearly compensates the employee for signing it. See Suellen Lowry, Note, *Inevitable Disclosure Trade Secret Disputes: Dissolutions Of Concurrent Property Interests*, 40 STAN. L. REV. 519, 532 (1988). Some urge that employees should be given additional consideration for signing a non-compete agreement such as compensation equivalent to the lost wages during the time the employee agrees not to compete. See, e.g., *Lumex*, 919 F. Supp. at 636 (enforcing a non-compete clause because it contains “fair and reasonable counterbalancing provisions,” including allowing work for a competitor, but preventing work on competitive products, specifying a relatively short time [six months] of non-competition, and payment by the former employer of the employee’s salary and benefits during the period of non-competition). Or, the employer could offer another form of consideration. See Garry Mathiason, *What’s In Your Head Can Hurt You*, FORTUNE, July 20, 1998, at 153. The employer, at the time of hiring or later, could ask the employee to give the company the right to hire the employee as a consultant for a short period of time if he resigns or is terminated. *Id.*
trade secrets.\textsuperscript{80} It should also be clear that the former employer will suffer irreparable damage which is not compensable in damages.\textsuperscript{81} As with any restrictive covenant, new and adequate consideration should be required. Where possible, the court’s restriction should not totally

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80. Whaley, \textit{supra} note 79 (proposing a new remedy be used for unavoidable disclosures). Whaley states that:

If a court examines these five factors and determines that all five are satisfied, namely that (1) the two employers are fierce competitors who are producing the same or similar products, (2) the trade secret information is critical to success in the marketplace, (3) the two positions are very similar in the hierarchy of the companies and would require the employee to do many of the same tasks or make similar strategic decisions, (4) the employee truly does have the trade secret information in her head-she either has so much information that all of it together would harm her former employer or she has knowledge of a key piece of information, and (5) the employee has other options and could in fact use his or her skills and not use the trade secrets elsewhere in the marketplace, the court should find “unavoidable disclosure.” The court should not consider the good or bad faith of the employer or employee under this standard. If it is really inevitable that an employee will have to rely on the same information, the intention or good or bad faith of the employee is not relevant. Under the “unavoidable disclosure” standard, inevitable truly means inevitable. Irrespective of intention, an employee will not be able to help but use the information that is in his of her head and that is a trade secret of the former employer. If the court is convinced from the above five factors alone that irrespective of an employee’s good or bad faith, disclosure of the secret will occur, the court should find that there is “unavoidable disclosure.”

If all of these factors are met, the court may enjoin the employee from working for the competitor until the information is no longer valuable. A non-compete injunction is the only sufficient remedy for a finding of unavoidable disclosure. A nondisclosure injunction for this situation would be meaningless because if disclosure is truly unavoidable, by definition, the employee will be unable to comply with the nondisclosure injunction. However, because the disclosure of the information is unavoidable, and because this is a situation in which blame can not be placed on any party, a unique compensatory non-compete injunction should be issued. Both the former employer and the new employer will be ordered to share the costs of compensation for the employee who will not be allowed to work. The employee is restricted from working, but he or she at least will be compensated during that time period. This will be a rigid and tough standard to satisfy, but it is conceivable that there are rare times when disclosure really is unavoidable.

This standard allows for a continuation of the same level of trade secret protection. When it is truly inevitable that an employee can not help but rely on the information, the secrecy and value of that information will be safeguarded because an injunction will issue preventing the employee from working for the competitor.

Id.


The Competitiveness of the Former and Future Employer: Are the two companies truly competitors? They must be rival companies who are producing the same or very similar products or services such that the confidential information an employee has will benefit the second employer. Also, as a part of this factor, courts must examine the type of industry in which the companies are competing.

Id.
bar employment in any capacity with the new employer, but should apply only to jobs in which the former employer’s trade secrets would be useful.82 Finally, the duration of the injunction should be limited to the time during which the information will continue to have value.83

If disclosure is truly inevitable and unavoidable, the former employee is unable to comply with a nondisclosure agreement or court order.84 Only a noncompetition order will protect the former employer.85 But the latter should pay for that benefit. In *Lumex, Inc. v. Highsmith*,86 the covenant restricted the employee from working in any part of a competitor’s business which competed with the former employer for six months. If the employee was unable to find comparable work due to the restriction, the former employer would pay his salary and benefits for six months.87 This court found this covenant to be fair and reasonable.88 He could “work for a competitor, but not on a ‘competitive product.’”89 He would “be fully compensated for the six month period,”90 after which he would be free to fully and directly compete.

Similarly, in *Marcam Corp. v. Orchard*,91 the noncompetition

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82. *Id.* stating:

The employee’s former and current or proposed future positions must be the same or very similar. The employee’s position should be an almost identical job, with the same responsibilities and tasks, such that it would be impossible for the employee not to utilize the information she was privy to at her previous place of employment. If the new position would be with a competitor but in a totally different job role or in another division, the court should not conclude a finding of “unavoidable disclosure.”

_Id._ Also, the court should consider the amount of discretion involved in each position. See *Victoria A. Cundiff, Hiring Competitors’ Employees: A Trade Secrets Perspective: Simple Rules of Thumb Can Be Misleading*, N.Y.L.J., Nov. 17, 1997, at S2. How much discretion will the employee have in the new position? An employee who is truly being hired simply to implement a pre-existing plan that cannot be readily changed may be unable to do much damage. _Id._ An employee who is actually going to be developing a competitor’s strategic or product plan may be far more dangerous. _Id._ For example, a court should not grant an injunction on the basis of unavoidable disclosure when an employee leaves a position in strategic planning to work in a divisional sales office with a dissimilar and unrelated job description.

83. See Chiara F. Orsini, Comment, *Protecting An Employer’s Human Capital: Covenants Not To Compete and The Changing Business Environment*, 62 U. PITT. L. REV. 175, 183 (2000) (noting one courts’ refusal to enjoin a defendant for more than six months because the information would have lost its value). Covenants not to compete are required to fulfill a reasonableness standard in respect to both temporal and geographic limitations. See also *infra* note 94.

84. See *supra* note 79 and accompanying text.

85. *Id.*


87. _Id._ at 626.

88. _Id._ at 636.

89. _Id._

90. _Id._

agreement was for one year anywhere in the United States; the employer offered to pay the employee 110% of the salary offered by a competitor during that year; the employee would then not disclose information about the employer’s business. The court found this to be reasonable, as the former employee could work for the proposed new employer in its London office for one year, and anywhere thereafter, or he could work for a non-competitor of the former employer anywhere. If no other employment opportunities worked out, he would be fairly compensated for a year.

IV. ENFORCEABILITY OF NONCOMPETITION AGREEMENTS

A. Statutory Provisions

The courts in most states will enforce a noncompetition agreement which the court finds to be reasonable. In some states this enforceability is expressly stated in a statute. For example, a Michigan statute declares:

An employer may obtain from an employee an agreement or covenant which protects an employer’s reasonable competitive business interests and expressly prohibits an employee from engaging in employment or a line of business after termination of employment if the agreement or covenant is reasonable as to its duration, geographical area, and the type of employment or line of business.95

Some statutes also expressly point out that a court should not “enter an injunction contrary to the public health, safety, or welfare or in any case where the injunction enforces an unreasonable covenant not to compete or where there is no showing of irreparable injury” to the former employer. Also, some statutes, while authorizing the use of covenants not to compete, limit their duration to a maximum time, such as two years.97

92. Id. at 296.
93. Id. at 298.
94. Lumex, 919 F. Supp. at 628 (noting that “[i]t is well established that restrictive covenants . . . will be enforced only if reasonably limited in scope and duration, and then only to the extent necessary to protect the employer from unfair competition”).
95. MICH. COMP. LAWS § 445.774a(1) (2001). See also WIS. STAT. § 103.465 (2001) (stating any covenant imposing an unreasonable restraint is unenforceable); TEX. BUS. & COM. ANN. § 15.50 (2001) (stating an agreement must not impose greater restraints than necessary to protect the goodwill or other business interests of the employer).
97. See, e.g., LA. REV. STAT. ANN. § 23.921C (2001) (stating that an “employee may
Some state statutes, on the other hand, expressly prohibit noncompetition agreements. For example, the North Dakota statute provides that “[e]very contract by which anyone is restrained from exercising a lawful profession, trade, or business of any kind is to that extent void,” except when the restraint is in connection with the sale of a business on the dissolution of a partnership.

Some statutes are more permissive as to the post-employment activities of the former employee. For example, in Oklahoma the former employee “shall be permitted to engage in the same [or a similar] business as that conducted by the former employer . . . as long as the former employee does not directly solicit the sale of goods, services or a combination [thereof] from the established customers of the former employer.”

Even those states which generally prohibit post-employment noncompetition agreements do allow and enforce agreements for the non-disclosure of trade secrets and confidential information. However, the statutes in some states have been construed to deny the employer even that protection. For example, in State Medical Oxygen and Supply, Inc. v. American Medical Oxygen Co., the employees had agreed not to disclose trade secrets or customer lists “for all time.” The Montana statute provided that “[a]ny contract by which anyone is restrained from exercising a lawful profession, trade, or business of any kind, otherwise than [an agreement] . . . that upon either the sale of goodwill of a business or the dissolution of a partnership, one or more of the parties will refrain from carrying on a similar business . . . is to that extent void.”

The court held that the statute was not limited to noncompetition agreements in employment contracts. It applied to any contractual agreement . . . [to a restrictive covenant] not to exceed a period of two years from termination of employment”; S.D. CODIFIED LAWS § 53-9-11 (2001) (stating that an “employee may agree not to engage . . . in same business . . . and not to solicit an employer’s existing customers within a specified area for any period not exceeding two years from the termination of agreement”).

98. See infra note 99.
99. N.D. CENT. CODE § 9-08-06 (2001). See also CAL. BUS. & PROF. CODE § 16600 (stating 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 is to that extent void”).
100. See infra note 101.
102. 782 P.2d 1272 (Mont. 1989).
103. Id. at 1274.
104. Id. (citing MONT. CODE ANN. § 28-2-703 as it existed at the time of the case).
105. Id. at 1275-76.
restraint.106 So, the agreement not to disclose violated the statute, and was therefore unenforceable.107

B. Reasonableness

1. Factors To Consider

In determining the validity of a noncompetition agreement, courts will often apply criteria like the following:

(1) Is the restraint, from the standpoint of the employer, reasonable in the sense that it is no greater than is necessary to protect the employer in some legitimate business interest?

(2) From the standpoint of the employee, is the restraint reasonable in the sense that it is not unduly harsh and oppressive in curtailing his legitimate efforts to earn a livelihood?

(3) Is the restraint reasonable from the standpoint of a sound public policy?

Non-competition covenants which pass these tests in the light of the facts of each case will be enforced in equity.108

a. Needs of the Employer

i. Geographic Scope

It is generally held that “[a]n employer is permitted to include in . . . a covenant [not to compete] the territory in which the employee has in fact performed work, thus protecting itself from the unfair appropriation of good will and information acquired in the course of that work.”109 Generally speaking, the area covered by a restraint will be considered reasonable if it is limited to the territory in which the employee was able, during his employment, to establish contact with his

106 Id. at 1272.
107 Id. at 1272.
109 Sysco Food Serv. of Atlanta, Inc. v. Chupp, 484 S.E.2d 323, 325 (Ga. App. 1997) (citations omitted) (enforcing covenant prohibiting sales manager from soliciting business in 11 named counties where manager had actually worked).
employer’s customers. 110

Where there is a demonstrated need for broad geographic protection of the employer, it will be allowed and enforced. 111 Thus, in Instrumentalist Co. v. Band, Inc., a two year restraint throughout the United States was upheld. The employer published a magazine directed to school band and orchestra directors and music teachers. The employee was restrained only from working for a periodical in the same market. The court found that the former employee had exercised near-exclusive authority for contacting and servicing the 40 to 50 major advertisers, who were located throughout the United States, and he had close business and personal ties to the people who made advertising decisions at these firms. 112

Even where the restrictive covenant contained no express geographic limitation, a court held it to be enforceable where its parameters were narrowly delineated, prohibiting only post-employment contact with the employer’s customers whom the employee had contacted during his employment. 113

It is generally held that a contractual prohibition against doing business with any customer of the former employer, regardless of the employee’s relationship with that customer, is overbroad and unenforceable. 114 Thus, in Mantek Division of NCH Corp. v. Share

110. Standard Register Co. v. Kerrigan, 119 S.E.2d 533 (S.C. 1961). See also Midwest Television, Inc. v. Oloffson, 699 N.E.2d 230 (Ill. App. Ct. 1998) (restraining a radio disk jockey for one year within 100 miles of employer’s station, which had a range of 60 to 90 miles; thus, a competitor with a strong signal within 100 miles could reach most of employer’s audience); 4408, Inc. v. Losure, 373 N.E.2d 899 (Ind. Ct. App. 1978) (finding restriction applied only in areas of employee’s employment with employer); Paramount Termite Control, 380 S.E.2d at 922 (finding a restriction reasonable when applied only to counties where employees had worked in past two years).

111. Standard Register, 119 S.E.2d at 539. “The general rule is that restraint as to territory, in order to be reasonable, must be necessary in its full extent for the protection of some legitimate interest of the employer. Stated negatively, the territorial scope renders the restraint unreasonable if it covers as area broader than necessary to protect the legitimate interest of the employer.” Id.


113. Id. at 1281. See also Nat’l Bus. Serv., Inc. v. Wright, 2 F. Supp. 2d 701, 705 (E.D. Pa. 1998) (finding an employee responsible for an employer’s product being shown on Internet, which had nationwide scope, and knew potential customers throughout country).

114. W.R. Grace & Co. v. Mouyal, 422 S.E.2d 529 (Ga. 1992). See also Am. Software USA v. Moore, 448 S.E.2d 206, 209 (Ga. 1994) (finding a proscription of a post-employment competitive activity with any of employer’s licensees anywhere in United States, regardless of whether employer had ever had contact with them during his employment, was unreasonable).

Corp.,\textsuperscript{116} while the restriction was only against competing within the three salesmen’s former territories, the court found that their territories were extensive, and that the market for their employer’s chemical products included almost every business and municipality.\textsuperscript{117} The restriction would prevent the employees from contacting potential new customers in their old territories who had not been contacted while they were employed by the former employer.\textsuperscript{118} The court said an injunction could only apply to calling on customers contacted while working for the former employer, and potential customers from whom they actually solicited business while with the former employer, because the latter had no good will as to other potential customers.\textsuperscript{119}

Courts will enforce a restriction applying to the employer’s entire business territory, even areas where the employee has not worked, where it is shown that the employee had access to business information, data, technical developments, and other restricted information, since his knowledge of the employer’s business could be effectively used to the employer’s detriment throughout the territory of the employer’s business.\textsuperscript{120}

\section*{ii. Duration in Time}

As is the case with other restraints on post-employment competition, three factors will usually be looked to when determining whether a time limit is reasonable.\textsuperscript{121} First, the duration of the restriction must be no

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  \item small city and the restriction barred her from competing anywhere in the United States where the employer operated.
  \item 780 F.2d 702 (7th Cir. 1986).
  \item \textit{Id.} at 709.
  \item \textit{Id.}
  \item \textit{Id.} at 710.
  \item \textit{Id.} at 710.
  \item Orkin Exterminating Co., Inc. v. Mills, 127 S.E.2d 796 (Ga. 1962). \textit{See also} All Stainless, Inc. v. Colby, 308 N.E.2d 481 (Mass. 1974) (finding a restriction unreasonable where it included areas outside the salesman’s former territory and where he had no confidential knowledge or information).
  \item Standard Register Co. v. Cleaver, 30 F. Supp. 2d 1084, 1097 (N.D. Ind. 1998) (discussing how “reasonableness of time restraint in covenant not to compete is generally judged using three criteria: its relation to employer’s protectable interest, possible injury to employee by precluding [employee] from pursuing his occupation as a means of support, and whether it will interfere with interests of the general public by depriving it of the restricted party’s services”); Standard Forms Co. v. Nave, 422 F. Supp. 619, 623 (E.D. Tenn. 1976) (stating in determining whether noncompetitive covenant is reasonable as to time and space, courts may consider “the threatened danger to the employer in absence of such an agreement, the economic hardship imposed on the employee, and the public interest”); John W. Bowers et al., \textit{Covenants Not to Compete: Their Use and Enforcement in Indiana}, 31 VAL. U.L. REV. 65, 78 (1996) (discussing how “the reasonableness of a time restraint is generally judged using three criteria: the length of the restraint must relate to
\end{itemize}
longer than is necessary to protect the interest of the employer. Thus, in *Frederick v. Professional Building Maintenance Industries, Inc.*, a restriction for ten years for any building maintenance work in eight counties, where the former employee had worked in only two of the counties, was held to be too broad in time and geography. Any pricing information and customer good will that the employee had would have value for only a short time.

Second, the duration of the restriction must not unduly harm the employee by making it difficult or impossible for him to work in his chosen field and support himself and his family. Where the restriction may have the effect of making the employee unemployable during its duration, the covenant can include provisions to compensate the employee during any forced period of inactivity. Thus, in *Lumex, Inc.*
v. Highsmith,\textsuperscript{128} the noncompetition agreement was for six months as to any part of a competitor’s business which competed with the employer. The agreement provided that if the employee could not find appropriate work due to this restriction, the employer would pay his salary and benefits for six months.\textsuperscript{129} The court held that six months was a relatively short time and necessary to protect the employer, since the employee was privy to “important . . . trade secrets and confidential information. . . .”\textsuperscript{130} The restriction was not unduly burdensome on the employee, as he could “work for a competitor, but not on a ‘competitive product,’”\textsuperscript{131} or for any noncompetitor. If necessary, he would “be fully compensated during the six month period.”\textsuperscript{132} The court also noted that the employee “himself conceded that [the potential new employer was likely to still] employ [him] after the six-month period.”\textsuperscript{133}

Finally, the public interest must be considered.\textsuperscript{134} Public policy favors making available as many services as possible. If the restriction will deprive the public of desirable services for too long, it will be held to be unreasonable.\textsuperscript{135}

iii. Kind of Activity

A noncompetition agreement should bar the former employee only from engaging in work or business activities that are the same as or similar to those of his employment with the former employer.\textsuperscript{136} The

\textsuperscript{128} 919 F. Supp. 624 (E.D.N.Y. 1996).

\textsuperscript{129} Id. at 626.

\textsuperscript{130} Id. at 631.

\textsuperscript{131} Id. at 636.

\textsuperscript{132} Id.

\textsuperscript{133} Id.

\textsuperscript{134} See Standard Register, 30 F. Supp. 2d at 1097 (stating the last factor to consider in determining if a time restraint is reasonable is whether it will interfere with the interests of the general public by depriving it of the restricted party’s services); Standard Forms, 422 F. Supp. at 623 (stating that in determining whether a noncompetitive covenant is reasonable as to time and space, courts must consider the threatened danger to the public); Bowers, supra note 121, at 78 (discussing how the reasonableness of a time restraint is generally judged using three criteria: the length of the restraint must relate to the employer’s protectable interest, restraint must not be so long in time as to injure the employee, and the restraint must not be so long in time as to interfere with the interests of the general public); Orsini, supra note 83 at 176 (stating that when courts review the reasonableness of a covenant not to compete, the harmful results to the public are considered); Pierre H. Bergeron, Navigating the “Deep” and “Unsettled Sea” of Covenant Not to Compete Litigation in Ohio: A Comprehensive Look, 31 U. Tol. L. Rev. 373, 380-81 (2000) (discussing how courts have determined covenants not to compete in certain professions are disfavored because of how injurious they are to the public).

\textsuperscript{135} Bowers, supra note 121, at 78.

\textsuperscript{136} Padco Advisors, Inc. v. Omdahl, 179 F. Supp. 2d 600, 607-08 (D. Md. 2002) (stating that
restriction should be limited to activities which will put the former employer at a competitive disadvantage because of the employee’s usurpation of good will or use of trade secrets. For example, in Paramount Termite Control Co., Inc. v. Rector, the court upheld a restriction barring the employees from engaging in the pest control business. The court pointed out that the employees could engage in any other work anywhere, and could even engage in the pest control business except in the territory where they had worked in the previous two years.

Similarly, in Midwest Television, Inc. v. Oloffson, the restrictive covenant barred a popular radio disk jockey from employment as a disk jockey for one year within the employer’s listening area. The court noted that the employee was only barred “from performing the same job functions at a competing local station . . . [, which left] open . . . a wide range of positions . . . within the restricted . . . area.”

b. Burden on the Employee

A restrictive covenant must not be unduly burdensome on the employee by making it difficult or impossible for him to work in any appropriate new job. In Schlumberger Well Service v. Blaker, the court denied enforcement of a covenant barring an executive of an oil and gas company, for two years, from employment with any competitor

a covenant not to compete was not overbroad because it only precluded an employee from becoming employed by either one of the two competitors offering the same specialized mutual funds as those available from the company); Bridgestone/Firestone, Inc. v. Lockhart, 5 F. Supp. 2d 667, 684-85 (S.D. Ind. 1998) (discussing how a noncompetition covenant that prohibited an employee from working for any business that sold commercial roofing products was unenforceable because the covenant restricted the employee from working for any employer who sold products that competed with the former employer even if the employee’s new employment did not relate to the roofing aspect of the new employer’s business); Superior Consulting Co., Inc. v. Walling, 851 F. Supp. 839, 847 (E.D. Mich 1994) (stating that a covenant not to compete was too broad to be enforceable where the covenant prohibited an employee from working in any capacity for a competitor of the former employer).

138. Id. at 925.
140. Id. at 235.
141. Minnesota Mining & Mfg. Co. v. Francavilla, 191 F. Supp. 2d 270, 279 (D. Conn. 2002) (stating under Connecticut law, one of the five factors to be considered in evaluating the reasonableness of a restrictive covenant is the extent it restrains an employee’s opportunity to pursue his occupation); Roto-Die Co., Inc v. Lesser, 899 F. Supp. 1515, 1520 (W.D. Va. 1995) (stating that a restrictive covenant which prohibited an employee from being an employee of any competitive business was overbroad in scope because the provision would have prevented the employee “from working in any capacity, including that of a janitor, for a competitive business”).
of employer “in substantially every oil and gas producing area in . . . the United States and Canada . . .” The court found that enforcing this restriction would “be potentially devastating to both [the employee] and his family.”

Most carefully and thoughtfully drawn restrictive covenants will be found to not unduly burden the employee. For example in *Millard Maintenance Service Co. v. Bernero*, a two year noncompetition agreement in three counties was found to impose no unreasonable burden on the employee. He could compete with his former employer except for the latter’s existing customers, and could also engage in the same business anywhere else.

Similarly, in *Wessel Co., Inc. v. Busa*, the court enforced a restriction barring the employee, for three years, from soliciting or serving anyone with whom the employer had done or sought to do business in the past two years in the territory in which the employee had worked. The court pointed out the employee could work in a competitive business in the same area, but could not solicit 50-60 firms in that area. There were still 3-400 potential customers in the restricted area, all of whom he could solicit, as well as the rest of the world.

Another court pointed out the distinction to be made between those employees whose training, skills, and experience might have value only in a fairly narrow business field, as opposed to those with broader talents which could lead to employment with many other firms which would not be competitors of the employer. The court said that it would not assume that compliance with a restrictive covenant would result in unreasonable hardship on high-level business executives whose talents

143. Id. at 1313.
144. Id. at 1318. Though it denied an injunction against his new employment, the court did grant an injunction as to information which the court deemed to be trade secrets. *Id.*
145. See *Millard Maint.*, 566 N.E.2d at 384 (stating that post employment covenants not to compete will be enforced if their terms are reasonable); *Union Nat’l. Life Ins. Co. v. Tillman*, 143 F. Supp. 2d 638, 643 (N.D. Miss. 2000) (suggesting the determination of whether a “covenant not to compete is valid and enforceable is largely predicated upon the reasonableness and specificity of its terms” when it is drafted); *J.E. Hanger, Inc. v. Scussel*, 937 F. Supp. 1546, 1554 (M.D. Ala. 1996) (allowing, as not overbroad, the enforcement of a covenant which prohibited a former employee from soliciting any of the employer’s customers with whom the former employee had any business dealings on behalf of the employer within the two years prior to his termination).
148. *Id.* at 418 (suggesting restrictive covenants that are only limited to former employer’s customers are not unduly burdensome because an employee can still solicit business in a restricted area from potential customers that a former employee did not do business with, as well as, customers outside the restrictive area).
could be useful in many other, non-competitive, lines of business.\textsuperscript{150} The same may well be true for many others, such as those in sales and marketing, computer analysts and consultants, and so on.

c. Public Interest and Need

As I have noted supra,\textsuperscript{151} one of the reasons courts have traditionally disfavored restrictive covenants is that public policy encourages the broadest possible availability of services. Many courts will deny enforcement if the restraint will deprive the public of needed or desirable services.\textsuperscript{152}

2. Won’t Be Enforced At All If Unreasonable

As the court pointed out in \textit{Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.},\textsuperscript{153} when courts are faced with a restrictive covenant which contains unreasonable and therefore unenforceable provisions, there are three possible approaches:

(1) the “all or nothing” approach, which would void the restrictive covenant entirely if any part is unenforceable,

(2) the “blue pencil” approach, which enables the court to enforce the reasonable terms provided the covenant remains grammatically coherent once its unreasonable provisions are excised, and

(3) the “partial enforcement” approach, which reforms and enforces the restrictive covenant \textit{to the extent it is reasonable}, unless the “circumstances indicate bad faith or deliberate overreaching” on the part of the employer.\textsuperscript{154}

\begin{quote}
\footnotesize
\textsuperscript{150} Id. at 572.
\textsuperscript{151} See supra note 94 and accompanying text.
\textsuperscript{152} Liautaud, 221 F.3d at 987 (stating that the terms of restrictive covenant must not be injurious to the general public); W. Med. Consultants, Inc. v. Johnson, 80 F.3d 1331, 1335 (9th Cir. 1996) (stating that a covenant not to compete must not be so large in its operation as to interfere with public interests). Covenants not to compete would interfere with the public interests if they prohibited an employee from competing with her former employer by establishing a competing office in an area long before the former employer contemplated opening an office in that area. \textit{Id.} See also Bus. Records Corp. v. Lueth, 981 F.2d 957, 961 (7th Cir. 1992) (stating that before a court will enforce a covenant not to compete, the proponent of the covenant must show that the enforcement of the covenant would not be injurious to the interests of the general public).
\textsuperscript{153} 968 F.2d 1463 (1st Cir. 1992). \textit{See also} Data Mgmt. Inc. v. Greene, 757 P.2d 62, 64-65 (Alaska 1998) (discussing the three approaches used by courts to deal with a covenant not to compete which is overbroad and unreasonable).
\textsuperscript{154} \textit{Ferrofluidics}, 968 F.2d at 1469 (citation omitted).
\end{quote}
Many states will not enforce any part of a restrictive covenant if it finds that the covenant is unreasonable in any respect. Sometimes this rule is established by legislation, but more commonly the rule is established by the judiciary. The rationale supporting this rule is to prevent overreaching by employers. In these states employers know that, if they try to get too much, they may get nothing. “[W]hen a restriction . . . is too far reaching to be valid, the court will not make a new contract for the parties by reducing the restriction to a shorter time or to a smaller area.” Those who oppose this “all or nothing”

155. Brockley v. Lozier Corp., 488 N.W.2d 556, 563-64 (Neb. 1992) (stating that under Nebraska law if a covenant not to compete is not reasonable then the covenant is not enforceable); Hartman v. W.H. Odel & Assoc., Inc., 450 S.E.2d 912, 917 (N.C. App. 1994) (stating if one of the requirements necessary for a covenant not to compete to be reasonable is not met “the entire covenant fails since equity will neither enforce nor reform an overreaching and unreasonable covenant”); Wolff v. Protégé Sys., Inc., 506 S.E.2d 429, 434 (Ga. Ct. App. 1998) (stating “[a] restrictive covenant must stand or fall in its entirety; if a contract contains illegal and unenforceable clauses within a restrictive covenant, the entire covenant must fall because the [Georgia] Supreme Court has refused to apply the blue-pencil theory of severability”); Russell Daniel Irrigation Co., Ltd. v. Coram, 516 S.E.2d 804, 806-07 (Ga. Ct. App. 1999) (stating blue-penciling is not available to re-write defective employment restrictive covenants); Varsity Gold, Inc. v. Porzio, 45 P.3d 352 (Ariz. Ct. App. 2002) (stating a court could not reform a covenant not to compete to limit its geographical scope, although an employment agreement provided for such reformation; a court only has the authority to eliminate grammatically severable and unreasonable terms); Laurence H. Reece, III, Employee Noncompetition Agreements: Four Recurring Issues, 46 B. B.J. 10, 10 (2002) (stating that Massachusetts courts have not adopted the “blue pencil” approach to strike overly broad noncompetition provisions); Ellen R. Lokker et al., Ninth Circuit Panel Holds Arbitrator Clause Unconscionable, 21 FRANCHISE L.J. 164, 172 (2002) (stating Georgia refuses to employ the “blue pencil” doctrine in which an unenforceable covenant could be excised from the agreement).

156. See, e.g., WIS. STAT. § 103.465 (2001). A covenant by an assistant, servant or agent not to compete with his or her employer or principal during the term of the employment or agency, or after the termination of that employment or agency, within a specified territory and during a specified time is lawful and enforceable only if the restrictions imposed are reasonably necessary for the protection of the employer or principal. Any covenant, described in this subsection, imposing an unreasonable restraint is illegal, void and unenforceable even as to any part of the covenant or performance that would be a reasonable restraint.

157. See supra note 154 and accompanying case comments.

158. Valley Med. Specialists v. Farber, 982 P.2d 1277, 1286 (Ariz. 1999) (stating that with the blue pencil rule “employers may create ominous covenants, knowing that if employees contest the provisions, courts will modify the agreement to make it enforceable”); Kolani v. Gluska, 75 Cal. Rptr. 2d 257, 260 (Cal. Ct. App. 1998) (suggesting “[e]mployers could insert broad, facially illegal covenants not to compete in their employment contracts [knowing] . . . most employees would honor these clauses without consulting counsel or challenging the clause in court”). If employers know the law permits them to retreat to a narrow, lawful construction of the covenant not to compete it creates an incentive for employers to use the broad, illegal clauses. Id.

159. Data Mgmt., 757 P.2d at 64, quoting Rector-Phillips-Morse, Inc. v. Vroman, 489 S.W.2d 1, 4 (Ark. 1973); Hartman, 450 S.E.2d at 917 (stating if one of the requirements necessary for a covenant not to compete to be reasonable is not met the entire covenant fails since equity will not
approach reason that the parties contracted for a covenant not to compete, and to void totally “all overbroad covenants not to compete . . . is too mechanistic and may produce unduly harsh results.”160

3. Court May Use Its “Blue Pencil”161

Some courts hold “that if words in an overbroad covenant not to compete can be deleted in such a way as to render it enforceable then the court may do so. This is the so-called ‘blue pencil’ rule.”162 “[I]f the covenant is clearly separated into parts and some parts are reasonable and others are not, the contract may be held divisible. The reasonable restrictions may then be enforced.”163 ‘Blue penciling’ should be limited

reform an overreaching and unreasonable covenant).

160. Data Mgmt., 757 P.2d at 64 (stating “[o]bliterating all overbroad covenants not to compete, regardless of their factual settings, is too mechanistic and may produce unduly harsh results”). “One of the elements of that bargain is the covenant not to compete, [and] [a]s a general rule, courts should respect the rights of parties to enter into contracts, and should not interfere with their contractual relationships.” Id.

161. Smart Corp. v. Grider, 650 N.E.2d 80, 83-84 (Ind. Ct. App. 1995) (stating if the covenant is clearly separated into parts and some parts are reasonable and others are not, the contract may be held divisible and the reasonable restrictions may be enforced). In such cases, unreasonable provisions are removed and the reasonable provisions are enforced under the blue pencil process. Id. However, blue penciling must be restricted by applying terms which already clearly existed in the contract. Id. Henderson Implement Co., Inc. v. Langley, 707 So. 2d 482, 485-86 (La. Ct. App. 1998) (stating courts “[can interpret] the will of the parties and decide that a provision inserted in the agreement is only an accessory clause to which the agreement was not subject for its existence”). In these cases the unreasonable provision is deleted and the remainder of the agreement stands and is enforceable. Id. Unisource Worldwide, Inc. v. Valenti, 196 F. Supp. 2d 269 (E.D.N.Y. 2002) (stating under New York law, the geographic scope of covenant not to compete was unreasonable but could be corrected using blue pencil method without rendering the entire covenant unenforceable). Gerald T. Husch & John Kluksdal, Employers’ Attorneys Must Be Careful When Drafting Covenants Not to Compete, 44 ADVOCATE 17, 18 (2001) (stating the Idaho Supreme Court has in principle adopted a flexible blue pencil approach in enforcing noncompetition covenants); See CHERIE BLACKBURN, SOUTH CAROLINA BAR, LABOR AND EMPLOYMENT LAW FOR SOUTH CAROLINA LAWYERS, IV-20 (1999) (discussing South Carolina’s Blue Pencil Rule that allows a court to mark through the invalid portions of a restrictive covenant and enforce the remaining valid provisions of the covenant).

162. See supra note 160. The rule derives its name from the action of the court to “strike[e], or ‘pencil [ ] out,’ void, offensive or unreasonable language in a contract . . . .” Bowers, supra note 121, at 79. Many courts have expressly rejected the “blue pencil” rule, for the reasons stated supra in Part IV.B.2. See, e.g., Uni-Worth Enters., Inc. v. Wilson, 261 S.E.2d 572 (Ga. 1979).


That where a promise in reasonable restraint of trade in a bargain has added to it a promise in unreasonable restraint, the former promise is enforceable unless the entire agreement is part of a plan to obtain a monopoly; but if full performance of a promise indivisible in terms would involve unreasonable restraint, the promise is illegal and is not enforceable even for so much of the performance as would be a reasonable restraint.
to enforcing provisions which “already clearly exist in the contract;” there should be no addition of provisions that were not already in the contract.¹⁶⁴

Some noncompetition agreements contain an express severability clause, which often leads a court to state that its existence “strengthens the case for the severance of unenforceable provisions because it indicates that the parties intended for the lawful portions of the contract to be enforced in the absence of the unlawful portions.”¹⁶⁵

4. Modify the Agreement

One other approach, where some provisions in a noncompetition agreement are held to be overbroad and therefore unreasonable, if for the court to modify or alter the covenant to make it reasonable and enforceable, unless the court decides that the covenant was not drafted in good faith.¹⁶⁶ These courts put the burden of proving good faith on the employer.¹⁶⁷ This rule allows a court “to determine, on the basis of all available evidence, what restrictions would be reasonable between the parties . . . It permits courts to fashion a contract reasonable between the parties, in accord with their intention at the time of contracting . . .”¹⁶⁸

Opponents of this rule argue, as they do with the “blue pencil” rule, that it reduces or eliminates the incentive for employers to draft narrow

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¹⁶⁴. Smart Corp., 650 N.E.2d at 83-84 (stating the same); Bridgestone/Firestone Inc., 5 F. Supp. 2d at 683 (holding where a contract is divisible, and where it will not lead to the addition of any new terms, courts may “blue pencil” any unreasonable provisions to make the contract reasonable).

¹⁶⁵. Abbott-Interfast Corp., 619 N.E.2d at 1343 (citation omitted).

¹⁶⁶. Data Mgmt., 757 P.2d at 64. In some states this rule has been promulgated by statute. See, e.g., M ICH. C OMP. L AWS § 445.774(a) (2001) (discussing the codified approach). The Michigan law states:

An employer may obtain from an employee an agreement or covenant which protects an employer’s reasonable competitive business interests and expressly prohibits an employee from engaging in employment or a line of business after termination of employment if the agreement or covenant is reasonable as to its duration, geographical area, and the type of employment or line of business. To the extent any such agreement or covenant is found to be unreasonable in any respect, a court may limit the agreement to render it reasonable in light of the circumstances in which it was made and specifically enforce the agreement as limited.

¹⁶⁷. Data Mgmt., 757 P.2d at 65; RESTATEMENT OF CONTRACTS § 184(2) (1981) (stating, “[a] court may treat only part of a term as unenforceable . . . if the party who seeks to enforce the term obtained it in good faith and in accordance with reasonable standards of fair dealing”).

¹⁶⁸. Data Mgmt., 757 P.2d at 65. See, e.g., Ferrofluidics Corp., 968 F.2d at 1471. The court found that the restrictive covenant was reasonable except for the duration of five years, which the court reduced to three years. Id.
and reasonable covenants.\textsuperscript{169} If the worst that can happen for the employer is to have the scope of the covenant reduced, it’s a “no lose” situation. Employers are likely to include in noncompetition agreements broad, oppressive and burdensome restrictions, thus forcing the former employee to either comply with the restraints or bear the burden of expensive and often lengthy litigation. Despite the view of one court that “‘[m]ost employers who enter contracts do so in good faith, and seek only to protect legitimate interests,’”\textsuperscript{170} these opponents point out that “most employers” is not “all employers.”\textsuperscript{171}

V. SHOULD NONCOMPETITION AGREEMENTS BE ENFORCED?

There are, of course, persuasive arguments on both sides of this question. Those who favor enforceability stress a legitimate need of employers to protect the trade secrets, confidential information and goodwill developed at considerable expense over a period of time.\textsuperscript{172} With the protection of a noncompetition agreement an employer can make optimum use of the employee’s skills and talents, and include the employee in important and confidential business operations and customer relationships. The employer also has an incentive to invest in the employee in terms of training and increasing responsibility, knowing that he will not leave and use these new talents elsewhere for a reasonable period of time.

From the employee’s point of view, before signing a covenant not to compete an employee is free to decide whether to accept an initial offer of employment or subsequent promotion. It may well be that the employee will agree only if additional compensation is offered in exchange. He might require that his present employment be guaranteed

\textsuperscript{169} See supra note 157.

\textsuperscript{170} Ferrofluidics Corp., 968 F.2d at 1471 (stating most employers who enter contracts do so in good faith and seek only to protect legitimate interests). Courts need to understand employers need to make a living too and “are entitled to reasonable protection against the predations of unscrupulous former employees.” Id.

\textsuperscript{171} See supra note 157.

\textsuperscript{172} See Evan’s World Travel, Inc. v. Adams, 978 S.W.2d 225, 233 (Tex. App. 1998) (stating a covenant not to compete was an enforceable agreement because of the employer’s interest in restraining an employee from competing against the employer using the former employee’s valuable information); Agrimerica, 524 N.E.2d at 953 (stating an “activity covenant,” which is designed to protect a former employer’s relationship with his customers is enforceable if it is reasonably related to the employer’s interest in protecting customer relations); Com-Co Ins. Agency, Inc. v. Serv. Ins. Agency, Inc., 748 N.E.2d 298, 301 (Ill. App. Ct. 2001) (stating the employer’s interest in its customers will be deemed proprietary for purposes of a covenant not to compete “if, by the nature of the business, the customer relation is near-permanent and, but for his prior employment, the employee would not have had contact with the clients in question”).
to continue for a fixed term, or that he will receive compensation during the post-employment period of noncompetition. If no satisfactory arrangement can be reached, he is free to look elsewhere for employment.

Those who oppose enforceability of noncompetition agreements argue that too often they give employers more protection than they really need.173 As I pointed out in Part IV A supra, a number of states expressly provide that, except as to trade secrets and confidential information, covenants not to compete are unenforceable.174 It does not appear that employers in these states are unduly hampered by these restrictions. Indeed, the fact that a state like California, with all its high-tech businesses, has such a statute suggests that there may be a strong competing public interest in making possible free mobility of workers, which can lead to valuable cross-polination and synergies.

The final question is, if noncompetition agreements are deemed to be enforceable at all, should they be enforced only if found to be reasonable as originally written — the “all-or-nothing” approach175 — or if they can be made reasonable by the “blue pencil” or modification approach and then enforced as revised.176 After more than fifty years in the business and professional world, I strongly favor the “all-or-nothing” approach. This rule will deter employers from overreaching; they will know that if their noncompetition agreements are unreasonable in any way, they will be totally unenforceable. Employers will be discouraged from placing unfair and oppressive burdens on employees, leaving the employees to seek judicial relief or forego a valuable new job opportunity.

In addition, using the modification or “blue pencil” approach puts a heavy burden on the courts. First, the court must determine whether the employer acted in good faith in drafting the covenant.177 Then the court must itself re-draft the covenant to make it reasonable.178 It seems to me much better to give the employer a strong incentive in the first instance to seek to restrain the employee only to the extent of real and clear need. Better to forego broad protection, even though it might be desirable, if there is danger that this extra reach will cause all protection to be lost.

173. See supra note 157.
174. See State Med. Oxygen and Supply, Inc., 782 P.2d at 1275 (stating that a covenant not to disclose trade secrets was void and not enforceable under Montana law).
175. See supra Part IV.B.2.
176. See supra Part IV.B.3-4.
177. See Data Mgmt., 757 P.2d at 65.
178. See supra Part IV.B.3-4.