DRAFTING ENFORCEABLE EMPLOYEE NON-COMPETITION AGREEMENTS TO PROTECT CONFIDENTIAL BUSINESS INFORMATION: A LAWYER'S PRACTICAL APPROACH TO THE CASE LAW

*Michael J. Hutter**

"[The former employee who departs with confidential information is] the most exasperating of all competitors."[1]

> No layman could realize the legal complication involved in [the former employee's] uncomplicated act. This is not one of those questions on which the legal researcher cannot find enough to quench his thirst. To the contrary there is so much authority it drowns him. It is a sea—vast and vacillating, overlapping and bewildering. One can fish out of it any kind of strange support for anything, if he lives so long. This deep and unsettled sea pertaining to an employee's covenant not to compete with his employer after termination of employment is really Seven Seas . . . .[2]

Every firm whose profits depend upon the use of confidential business information[3] runs the risk of incurring serious losses if such information were to be acquired and used without authorization by a competitor.[4] In recent

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* Associate Professor of Law, Albany Law School. A.B. Brown University; J.D. Boston College Law School. The author wishes to acknowledge the helpful suggestions of Carol Donnelly and Kevin Kelley, members of the New York Bar, *il miglior fabbro.*

[1] Belmont Laboratories, Inc. v. FTC, 103 F.2d 538, 542 (3d Cir. 1939).

[2] Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 20-21, 105 N.E.2d 685, 687 (1952).

[3] For purposes of this Article, "confidential business information" is defined as any item or knowledge not generally known in the trade or industry that is used in the conduct of one's business, the use of which confers a competitive advantage over one who does not possess it. Such information may or may not constitute a legally protectible "trade secret" for purposes of the common law of trade secret misappropriation. For a definition of what constitutes a "trade secret," see Hutter, *Trade Secret Misappropriation: A Lawyer's Practical Approach to the Case Law*, 1 W. NEW ENG. L. REV. 1, 10-22 (1978).

[4] As one commentator has noted:

> INDUSTRIAL COMPETITION today is so acute in many instances that very often a few pennies in the selling price of a product or a service, or its quality or lack of it, one way or another, spells success or failure in the sale of that product or service. Frequently the price or quality of such product or service is determined by information gained through painstaking effort on the part of a company, by its so-called "know-how," by equipment refinements, by new invention and processing methods, and by other means all of which are to a greater or less degree kept from the inquisitive eye of competitors and others not directly concerned with the operation.

Maruchnics, *Industrial Trade Secrets, Their Use and Protection*, 4 CLEV.-MAR. L. REV. 69, 69 (1955). *See also* Granzier, *Guardians Against Industrial Espionage*, 53 MANAGEMENT REV. 40,

years the likelihood that such losses will occur has greatly increased due to a rise in employee mobility.[5] With increasing frequency, key executives as well as technicians and engineers change jobs, taking with them their ex-employer's confidential information that they acquired during their previous employment.[6] These employees often do not hesitate to pass on their former employer's confidential information because their sense of loyalty appears to run entirely in favor of the *new* employer. Loyalty to the former employer thus evaporates when the job comes to an end.[7]

To guard against the occurrence of this situation, the use of employee non-competition agreements has become quite prevalent in the United States.[8] A typical non-competition agreement will recite that after termination of one's employment for any reason, the employee will not work in the same or similar line of business activity, either for himself/herself or for anyone else within a designated geographical area for a specified period of time.[9] In view of the number of decisions reported each year involving such

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41 (Jan. 1974); Smith, *Industrial Espionage*, FORTUNE 118, 120 (May, 1956).

[5] *See, e.g.*, S. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD? TRADE SECRETS AND THE MOBILE EMPLOYEE 76-78 (1979); J. O'MEARA, EMPLOYEE PATENT AND SECRECY AGREEMENTS (National Indus. Conference Bd. Pamphlet #199, 1965) [hereinafter cited as EMPLOYEE AGREEMENTS]; Furasch, *Problems in Review—Industrial Espionage*, HARV. BUS. REV., Nov.-Dec. 1959, at 6; 1971 PAT. T. M. COPYRIGHT J. (BNA) No. 57, at A-10, 11.

[6] *See, e.g.*, Note, *Trade Secret Protection of Non-Technical Competitive Information*, 54 IOWA L. REV. 1164, 1166-67 (1969); *Developments in the Law—Competitive Torts*, 77 HARV. L. REV. 888, 950 (1964). *See also* Harris & Siegel, *Protection of Trade Secrets: Initial Report*, 8 PAT. T.M. COPYRIGHT J. OF RESEARCH & EDUC. 360 (1964); Note, *Industrial Secrets and the Skilled Employee*, 38 N.Y.U. L. REV. 324 (1963). In a survey conducted by the Harvard Business School of readers of *The Harvard Business Review*, 78% of those surveyed said they would give to their new employers all of their information about their former employer and 45% said they would hire as a new employee one who previously worked for a competitor for the sole purpose of gaining information about that firm. Furasch, *Problems in Review—Industrial Espionage*, HARV. BUS. REV., Nov.-Dec. 1959, at 6, 164, 168.

[7] Harding, *Trade Secrets and the Mobile Employee*, 22 BUS. LAW. 395, 396 (1967).

[8] As one commentator has noted:

> A recent survey indicates that among eighty-six representative corporations almost all (eighty-three) use some form of employment agreement to protect patent and trade secret rights. The manner and extent to which these companies use agreements vary. Some of the companies (twenty-five) require all personnel to sign an agreement as a condition of employment; most of the companies (fifty-eight) require research and development as well as technical employees generally to sign; many (twenty-two) require some of their salesmen to sign, and almost as many require *all* salesmen to bind themselves in this manner.

1 R. MILGRIM, TRADE SECRETS § 3.02 (1979) [hereinafter cited as MILGRIM]. *See also* EMPLOYEE AGREEMENTS *supra* note 5, at 13, 15; Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625 (1960); 37 N.Y. JUR., *Master & Servant* § 169 (1964).

[9] 6A A. CORBIN, CONTRACTS §§ 1385-95 (1962); 14 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS §§ 1637-44 (3d ed. 1972). Such agreements are also referred to as restrictive covenants and covenants not to compete.

Two other forms of non-competition agreements are sometimes utilized. The first is the use of a non-competition agreement incorporated into a firm's pension plan. Under this arrangement, if the employee breaches the non-competition agreement, all vested pension benefits are

non-competition agreements, it also appears to be quite common for employees to breach them and contend that they are illegal.[10]

Analysis of that litigation demonstrates that care must be exercised in drafting and implementing employee non-competition agreements in order to ensure that the employer's goal of preventing the dissemination to competitors of confidential business information by its former employees is to be achieved. This Article, after discussing the reasons why employee non-competition agreements are greatly utilized, endeavors to provide the basic background and legal guidelines needed by the practitioner who is desirous of drafting an agreement that will be upheld and enforced by the courts. The Article does not seek to reconcile the apparent inconsistencies in the cases,[11] nor does it attempt to canvass all the possible areas that should be covered in employment contracts.[12]

I. Advantages of Employee Non-Competition Agreements

An employer who is desirous of protecting his or her business from competitive harm caused by ex-employees utilizing the ex-employer's confidential business information has traditionally had several sources of protection: reliance upon the common law of trade secret misappropriation, use of covenants not to disclose, and use of employee non-competition agreements. Thus, the employer is initially confronted with the question of determining

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forfeited. The utility of such arrangements is currently quite limited. *See generally* Note, *ERISA's Restrictions on the Use of Postemployment Anticompetition Covenants*, 45 Alb. L. Rev. 410 (1981). The other form is to retain the employee as a consultant to the firm after termination at a specified salary and for a specified period of time, and in return the ex-employee is prohibited from competing against the employer during the life of the consultancy. The validity of such an arrangement has not yet been determined by the courts. It would seem, however, that it would be scrutinized under the same reasonableness standard used with respect to ordinary non-competition agreements. See text accompanying notes 40-157 *infra*. Since these forms of non-competition agreements do not appear to be greatly utilized, this Article will not address itself to them.

[10] Volumes of cases confirm this point. *See, e.g.*, Annot., 45 A.L.R.2d 77 (1956) and Annot., 43 A.L.R.2d 94 (1955) for an extensive listing of these cases. Furthermore, as one commentator has observed:

> [R]eason exists to believe that the number of decisions reported constitutes only the proverbial iceberg's tip. Not only do many potential competitors undoubtedly avoid litigation by moving beyond the ambit of the restrictive covenant (either geographically or vocationally) after termination of employment, but the mere existence of such clauses must also induce many employees—unwilling to choose among changing careers, moving to a new location, or litigating—not to leave their employment to begin with.

Sullivan, *Revisiting the "Neglected Stepchild": Antitrust Treatment of Postemployment Restraints of Trade*, 1977 U. Ill. L.F. 621, 622-23.

[11] For such a discussion, see Blake, *supra* note 8.

[12] For such a discussion, see S. Lieberstein, Who Owns What is in Your Head? Trade Secrets and the Mobile Employee (1979); Arnold & Maguire, *The Law and Practice of Corporate Information Security*, 57 J. Pat. Off. Soc'y 169 (1975).

what avenue of protection to pursue. This choice may be made more difficult in many instances because the employer may have doubts about resorting to the "untactful position" of requiring employees to sign restrictive covenants.[13] For several reasons, however, it can be easily seen that the use of employee non-competition agreements is the primary and most effective way to guard against unauthorized use of confidential business information by an ex-employee.

The common law of trade secret misappropriation protects under certain circumstances a firm's confidential business information from unauthorized use by an ex-employee.[14] Although no single formulation for imputing liability for trade secret misappropriation has been universally accepted, the courts are in general agreement that liability requires proof of two essential elements: that the information qualifies as a trade secret and that the ex-employee is using or threatens to use the trade secret to the ex-employer's detriment.[15] It has long been recognized, however, that the law of trade secret misappropriation does not afford an employer adequate protection in many instances.[16]

For example, in attempting to establish the "use" element of liability, the employer faces considerable evidentiary burdens.[17] Where the claim is that the ex-employee is using or has disclosed the trade secret, proving this element, as one federal judge has noted, can be "an extraordinarily difficult task"[18] since direct evidence is usually very difficult to obtain.[19] In situations

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[13] *See* Note, *An Employer's Competitive Restraints on Former Employees*, 17 DRAKE L. REV. 69 (1967). In this regard, it is to be noted that such agreements are generally disliked by employees and their imposition can be harmful to employee relations, MILGRIM, *supra* note 8, at § 3.02(2)(e); Note, *Injunctions to Protect Trade Secrets—The* Goodrich *and* DuPont *Cases*, 51 VA. L. REV. 917, 931 (1965).

[14] 2 MILGRIM, *supra* note 8, at § 8.02(1); S. OPPENHEIM & C. WESTON, UNFAIR TRADE PRACTICES AND CONSUMER PROTECTION 317 (1974). *See generally* Note, *Trade Secrets and Patents Compared*, 50 J. PAT. OFF. SOC'Y 536 (1968).

[15] For a detailed discussion of these elements, see 2 MILGRIM, *supra* note 8, at § 7.07; Hutter, *supra* note 3, at 9-34.

[16] *See* Bender, *Trade Secret Protection of Software*, 38 GEO. WASH. L. REV. 909 (1970); Lieberstein, *Suing the Former Employee*, 59 J. PAT. OFF. SOC'Y 705 (1977); Comment, *The Scott Amendment to the Patent Revision Act: Should Trade Secrets Receive Federal Protection*, 1971 WIS. L. REV. 900.

[17] *See generally* Kreindl & Kreindl, *Noncompetition Covenants in Colorado: A Statutory Solution*, 52 DEN. L.J. 499, 530-31 (1975). And, of course, plaintiff in every instance must establish a legally protectible trade secret. *Id.*

[18] Greenberg v. Croydon Plastics Co., Inc., 378 F. Supp. 806, 814 (E.D. Pa. 1974) (Lord, Ch. J.).

[19] As Chief Judge Lord observed:

> In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs alleged happened did in fact take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.

Greenberg v. Croydon Plastics Co., Inc., 378 F. Supp. 806, 814 (E.D. Pa. 1974). For examples of cases relying on circumstantial evidence to establish use, see Weil-McLain Co. v. Andro Corp.,

in which relief is sought prior to actual use or disclosure[20] the employer is confronted with the much oversimplified maxim that: "every dog has one free bite. A dog cannot be presumed to be vicious until he has proved that he is by biting someone. As with a dog, the former employer may have to wait for a former employer to commit some overt act before he can act."[21] Put another way, injunctive relief will not be granted merely upon the employer's belief or suspicion that its secrets will be used or disclosed to its detriment.[22] Rather, the employer must establish that use or disclosure is "either imminent or eventually inevitable."[23]

Furthermore, even if the employer has established that the ex-employee has misappropriated its trade secrets, and the court has enjoined future use or disclosure of the trade secret by the ex-employee, a court will generally not enjoin on that basis the ex-employee from taking or continuing in competition with the ex-employer absent a valid non-competition agreement.[24] As explained by one commentator, "most courts take the view that the 'shield' which trade secret protection affords cannot be used to replace the 'sword' which can only be utilized in the context of an explicit and reasonable covenant not to compete."[25] The result is that the ex-employer, in order to ensure against use of its trade secret is compelled to police the activities of its ex-employee. Such policing can prove to be difficult.[26]

Another source of protection for the employer is a covenant not to disclose or use after termination of employment any confidential business in-

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[1977-1978] PAT. T.M. & COPYRIGHT J. (BNA), No. 333, at A-16 (N.D.N.Y. 1977); Schreyer v. Casco Prods. Corp., 97 F. Supp. 159 (D. Conn.), *modified*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952); Riteoff, Inc. v. Contact Indus., Inc., 43 A.D.2d 731, 350 N.Y.S.2d 690 (1973); Kamin v. Kuhman, 232 Or. 139, 374 P.2d 912 (1962).

[20] Indeed, injunctive relief in these circumstances is highly desirable. *See* Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958); E. KINTNER & J. LAHR, AN INTELLECTUAL PROPERTY LAW PRIMER 221 (1975).

[21] R. ELLIS, TRADE SECRETS § 85, at 127 (1953).

[22] *See* Dutch Cookie Mach. Co. v. Vande Vrede, 289 Mich. 272, 286 N.W. 612 (1939); McCombs v. McClelland, 223 Or. 475, 354 P.2d 311 (1960); 2 MILGRIM, *supra* note 8, at § 7.07(1)(d) (collecting cases).

[23] Standard Brands, Inc. v. Zumpe, 264 F. Supp. 254 (E.D. La. 1967). For examples of cases where the employer met this standard, see Allen Mfg. Co. v. Loika, 145 Conn. 509, 144 A.2d 306 (1958); Glucol Mfg. Co. v. Schulist, 239 Mich. 70, 214 N.W. 152 (1927); B.F. Goodrich Co. v. Wohlgenuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963).

[24] *See, e.g.*, E.W. Bliss Co. v. Struthers-Dunn, Inc., 408 F.2d 1108 (8th Cir. 1969); Motorola, Inc. v. Fairchild Camera & Instrument Corp., 366 F. Supp. 1173 (D. Ariz. 1973); Jet Spray Cooler, Inc. v. Crampton, 361 Mass. 835, 282 N.E.2d 921 (1972); *Cf.* Harley & Lund Corp. v. Murray Rubber Co., 31 F.2d 932 (2d Cir. 1929) (Hand, J.); Orkis Exterminating Co. v. Burnnett, 259 Iowa 1218, 146 N.W.2d 320 (1966). *But see* New England Overall Co. v. Waltman, 343 Mass. 69, 176 N.E.2d 193 (1961); 1 MILGRIM, *supra* note 8, at § 5.02(3) n.52.1 (injunctive relief may be available where disclosure is virtually inevitable).

[25] Blake, *Restrictive Covenants in Employment Agreements and Their Possible Use for the Protection of Trade Secrets*, in PROTECTING AND PROFITING FROM TRADE SECRETS 38 (P.L.I. 1977).

[26] *Cf.* Novelty Bias Binding Co. v. Shevrin, 342 Mass. 714, 175 N.E.2d 374 (1961); Wetzel, *Employment Agreements and Noncompetition Agreements*, 1969 U. ILL. L.F. 61, 65-66.

formation acquired by the employee during the course of his or her employment.[27] The problem inherent in such covenants is that the employee upon termination of the employment could commence work with any firm, even a competing firm, and there would be no breach of the covenant so long as the employee honors the covenant.[28] Such a covenant may then be difficult to enforce.[29] Indeed, enforcement difficulty will be present even with the situation of an ex-employee who attempts in good faith to abide by his covenant, as the new employment may inevitably lead one to compromise his earlier intentions. As observed by one court, "The mere rendition of the service along the lines of his training would almost necessarily impart such knowledge to some degree. [The employee] cannot be loyal both to his promise to his former employer and to his new obligations to [his new employer]."[30]

Confronted with the relative ineffectiveness of the forms of protection noted above, employers have come to rely upon non-competition agreements.[31] Indeed, it has been contended among the commentators that the use of employee non-competition agreements is the primary device by which an employer can best protect his confidential business information against loss via the peripatetic employee,[32] a view echoed by at least one court.[33] The use of such agreements has been advocated because they avoid the limitations inherent in the other sources of protection. Thus, in order to enforce such an agreement, it is not necessary for the employer to establish either actual or imminent use of confidential business information, but only that if the ex-employee commences work with his/her new employer, a breach of

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[27] *See* Comment, *Employer Protection: Restraints on Competition by Former Employees*, 1970 ANN. SURVEY OF MASS. LAW 129, 132; Note, *Contracts in Restraint of Trade: Employee Covenants Not to Compete*, 21 ARK. L. REV. 214 (1967). It is to be noted that a duty not to disclose trade secrets will usually be implied from the employment relationship. Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958); 1 H. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADEMARKS § 150 (4th ed. 1947); RESTATEMENT (SECOND) OF AGENCY § 395 (1953). It can be argued that such a covenant functions only to establish that the employee has been put on notice that the employer wants to protect its confidential business information. See L.M. Rabinowitz & Co. v. Dasher, 82 N.Y.S.2d 431 (Sup. Ct. 1948); 42 COLUM. L. REV. 317 (1942).

[28] This, of course, follows from the well-established principle that an employee may upon termination of employment compete with his former employer either on his or her own behalf or as an employee of someone else. See J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:1 (1973); 1 MILGRIM, *supra* note 8, at § 3.02(1)(d).

[29] *See, e.g.*, United Aircraft Corp. v. Boreen, 284 F. Supp. 428 (E.D. Pa. 1968), *aff'd* 413 F.2d 694 (3d Cir. 1969); Van Prods. Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769 (1965); Spring Steels, Inc. v. Molloy, 400 Pa. 354, 162 A.2d 370 (1960).

[30] Eastman Kodak Co. v. Powers Film Prods., Inc., 189 A.D. 556, 561-62, 179 N.Y.S. 325, 330 (1919).

[31] *See* note 8 *supra;* Note, *ERISA's Restrictions on the Use of Postemployment Anticompetition Covenants*, 45 ALB. L. REV. 410 (1981).

[32] *See* 1 MILGRIM, *supra* note 8, at § 3.02; Arnold & Maguire, *supra* note 12; Blake, *supra* note 8, at 627.

[33] Motorola Inc. v. Fairchild Camera & Instrument Corp., 366 F. Supp. 1173, 1186 (D. Ariz. 1973). *See also* Justin Belt Co., Inc. v. Yost, 502 S.W.2d 681, 685-86 (Tex. 1973).

the covenant will occur.[34] To be sure, the employer must establish the "reasonableness" of the non-competition agreement,[35] but this burden is usually less difficult than the burden of establishing actual or imminent use.[36] Additionally, non-competition agreements are advantageous because they are easier to police. If an ex-employee is prohibited from working for a competitor, he/she will have no opportunity to use or disclose his/her ex-employer's confidential business information.[37] The only policing that is necessary is that of monitoring the subsequent business associations of the ex-employee.[38]

For an employer, then, employee non-competition agreements are the primary source of protection to guard against unauthorized use of confidential business information by ex-employees. Most courts, however, approach such agreements with great skepticism, recognizing that their enforcement interferes to some extent with an individual's freedom to pursue his/her calling, and with the mobility of talent within the economy.[39] Consequently, careful drafting of these agreements is of utmost importance to employers.

II. Standards of Validity

A. *Common Law*

1. Nature and Scope of the Competitive Restriction

At one time, employee non-competition agreements were regarded with high disfavor by the courts and denounced as being "against the benefit of the commonwealth."[40] This early judicial hostility towards such agreements

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[34] *See* Note, *Trade Secret Protection of Nontechnical Competitive Information*, 54 Iowa L. Rev. 1164, 1173 (1969); Note, *Injunctions to Protect Trade Secrets—The* Goodrich *and* DuPont *Cases*, 51 Va. L. Rev. 917, 931 (1965). *Cf.* Krendl & Krendl, *Noncompetition Covenants in Colorado: A Statutory Soltuion?*, 52 Den. L.J. 499, 531 (1975).

[35] *See* text accompanying notes 40-157 *infra* for a discussion of what the concept "reasonableness" entails.

[36] R. Ellis, Trade Secrets § 86, at 128 (1953).

[37] *See* Schneider & Halstrom, *Trade Secret Protection in Massachusetts*, 56 Mass. L.Q. 239 (1971); Note, *Protection of Trade Secrets in Florida: Are Present Remedies Adequate?*, 24 U. Fla. L. Rev. 721 (1972).

[38] Comment, *Employer Protection: Restraints on Competition by Former Employees*, 1970 Ann. Surv. Mass. Law 129, 133.

[39] *See, e.g.*, Purchasing Assocs., Inc. v. Weitz, 13 N.Y.2d 267, 196 N.E.2d 245, 246 N.Y.S.2d 600 (1963); Morgan's Home Equip. Corp. v. Martucci, 390 Pa. 618, 136 A.2d 838 (1957). In this regard, it is to be noted that these agreements are enforced as exceptions to the rule against restraints of trade. Blake, *supra* note 8, at 626.

[40] Colgate v. Bacheler, 2 Cro. Eliz. 872, 78 Eng. Rep. 1097 (Q.B. 1602). *See* Diamond Match Co. v. Roeber, 106 N.Y. 473, 479-84, 13 N.E. 419, 420-22 (1887). *See also* 14 S. Williston, A Treatise on the Law of Contracts §§ 1634-35 (3d ed. 1972). In one of the earliest reported cases, the judge became so enraged by an attempt to restrain a dyer from working in a town for just a half-year that he declared: "By God, if the plaintiff were here he would go to prison until

can be attributed to their extensive use by guild masters to circumvent the customary rules of apprenticeship.[41] Since there was no intercraft mobility, contractual restrictions on employment had severe economic impact upon the employee. Thus, the courts declared any restraint on future employment invalid without any consideration of the scope of the imposed restrictions.[42] As the guild system gradually yielded to the opportunities brought on by the Industrial Revolution, it became evident that there were situations in which it was not only desirable but essential that employee non-competition agreements be enforced.[43] A modification of the earlier rule gained acceptance with it giving way to a more tolerant "balancing of interests" standard to determine the validity of employment restraints.[44]

The balancing of interests standard enunciated by the English courts has been adopted by most American jurisdictions as a standard of "reasonableness."[45] The verbal formulation of this standard by the New York Court of Appeals is fairly typical: "Such covenants will be enforced only if reasonably limited temporally and geographically . . ., and then only to the extent necessary to protect the employer from unfair competition . . . ."[46] From this statement of the standard, it is clear that there is a two-step approach to reasonableness: first, it is necessary to decide whether the non-competition agreement is reasonably necessary to protect the legitimate needs of the employer; and second, whether the non-competition agreement is reasonable with respect to the nature of the temporal and geographical restraints and

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he paid a fine to the King." Dyer's Case, Y.B. Mich. 2 Hen. 5, n.5, pl. 26 (C.P. 1414).

[41] *See* Carpenter, *Validity of Contracts Not to Compete*, 76 U. PA. L. REV. 244, 245 (1928).

[42] Blake, *supra* note 8, at 627-46.

[43] *See* Mitchel v. Reynolds, IP Wms. 181, 24 Eng. Rep. 347 (Q.B. 1711).

[44] *See generally id.;* Horner v. Graves, 131 Eng. Rep. 284 (C.P. 1831); Herbert Morris, Ltd. v. Saxelby, [1916] A.C. 688; Mason v. Provident Clothing & Supply Co., [1913] A.C. 724.

[45] *See, e.g.,* National Chemsearch Corp. v. Hanker, 309 F. Supp. 1278 (D.D.C. 1970); House of Vision, Inc. v. Hiyane, 37 Ill. 2d 32, 225 N.E.2d 21 (1967); Millward v. International Sport Educ., Inc., 268 Md. 483, 302 A.2d 14 (1973); Solari Indus., Inc. v. Malady, 55 N.J. 571, 264 A.2d 53 (1970); Purchasing Assocs., Inc. v. Weitz, 13 N.Y.2d 267, 196 N.E.2d 245, 246 N.Y.S.2d 600 (1963); Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 105 N.E.2d 685 (1952); Jacobson & Co. v. International Environment Corp., 427 Pa. 439, 235 A.2d 612 (1967); Wilson v. Century Papers, Inc., 397 S.W.2d 314 (Tex. Civ. App. 1965). *See generally* J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:10 (1973); RESTATEMENT (SECOND) OF CONTRACTS § 330(1) (Tent. Draft No. 12, 1977).

[46] Columbia Ribbon & Carbon Mfg. Co., Inc. v. A-1-A Corp., 42 N.Y.2d 496, 499, 369 N.E.2d 4, 6, 398 N.Y.S.2d 1004, 1006 (1977). *See also* Heckard v. Park, 164 Kan. 216, 223-24, 188 P.2d 926, 931 (1948) ("The real question is never whether there is any restraint of trade but always whether the restraint is reasonable in view of all the facts and circumstances and whether it is inimical to the public welfare. *If it is reasonable and does not contravene public welfare the contract will be upheld.*") (emphasis added); Novelty Bias Binding Co. v. Shevrin, 342 Mass. 714, 716, 175 N.E.2d 374, 375-76 (1961) ("It has long been settled in this Commonwealth that a covenant inserted in a contract for personal service restricting trade or competition or freedom of employment is not invalid and may be enforced in equity provided it is necessary for the protection of the employer, is reasonably limited in time and space, and is consonant with the public interest. What is reasonable depends on the facts in each case.").

the activity proscribed.[47]

These two aspects of reasonableness are of primary concern to those drafting an employee non-competition agreement. What is reasonable or unreasonable will, of course, depend upon the facts and situation of each particular employer and employee. The draftsman, however, does not approach this subject without any guidance. Like most expressions of "reasonableness," the formulation of reasonableness for employee non-competition agreements is an outline which has been expanded by judicial decisions.[48] Analysis of these decisions suggests the limits to which a restraint can be enforced and what the draftsman must consider and do in order to prepare a "reasonable" agreement.

a. Employer's Interest

In its most basic terms the first aspect of reasonableness requires an examination into the business operations of the employer. A determination must be made as to whether there is a real need for protection or whether the agreement is simply being used to attain other objectives.[49]

With respect to the latter there can be no doubt that the courts are quite cognizant of the fact that the "efficacy of these agreements invites abuse."[50]

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[47] *See, e.g.*, Gulick v. A. Robert Strawn & Assocs., 477 P.2d 489, 492 (Colo. Ct. App. 1970); Briggs v. Butler, 140 Ohio St. 499, 507, 45 N.E.2d 757, 761 (1942).

[48] It is important to note that the "reasonableness" cases to be considered are only those cases dealing with employee non-competition agreements. Non-competition agreements cases involving the sale of a business should be discounted by the draftsman. The reason for this is that the case law has recognized a greater sign of permissible restraint where the non-competition agreement is utilized in a side of a business transaction that is an employment context. See, *e.g.*, American Hot Rod Ass'n v. Carrier, 500 F.2d 1269 (4th Cir. 1974); C.G. Caster Co. v. Regan, 43 Ill. App. 3d 663, 357 N.E.2d 162 (1976); Solari Indus., Inc. v. Malady, 55 N.J. 571, 264 A.2d 53 (1970); Purchasing Assocs., Inc. v. Weitz, 13 N.Y.2d 267, 196 N.E.2d 245, 246 N.Y.S.2d 600 (1963); RESTATEMENT OF CONTRACTS § 515, Comment b (1932). This difference in treatment has been rationalized as follows:

> An agreement not to compete for a period of time after the termination of employment is different in several respects from the covenant of the vendor of a business who agrees not to compete in order to protect the goodwill for which he has received valuable consideration. In surrendering his right to compete subsequent to termination of employment, an employee can divest himself of his only valuable asset, whereas a vendor-covenantor invariably has the capital which arose from the sale of his business. The employer-employee relationship may involve a disparity in bargaining power which might lead the employee to agree not to compete in order to acquire employment. On the other hand, the vendor's express agreement to refrain from all competition amounts to only a slightly greater burden than the one he assumes even in the absence of an express restriction since the sale of goodwill prevents the vendor from soliciting his former customers in any event.

Wetzel, *Employment Contracts and Noncompetition Agreements*, 1969 U. ILL. L.F. 61, 64.

[49] *See generally* Blake, *supra* note 8, at 651-74; Kreider, *Trends in the Enforcement of Restrictive Employment Contracts*, 35 U. CINN. L. REV. 16, 18-21 (1966).

[50] Comment, *Partial Enforcement of Post-Employment Restrictive Covenants*, 15 COLUM. J.

Employee non-competition agreements can furnish an employer with a tool for inhibiting the mobility of its employees. Thus, an employer may seek a non-competition agreement in order to discourage the employee from seeking new employment.[51] The agreement would have this effect as an employee subject to it might be reluctant to uproot himself/herself knowing that his/her choice of other employment would be drastically curtailed. Additionally, employers are naturally desirous of protecting themselves from competition by ex-employees in whose training they have invested time and money[52] and who are familiar with their business practices.[53] The courts have universally held that non-competition agreements cannot be utilized to achieve these objectives[54] on the ground that they cannot perform a beneficial economic function.[55]

The cases recognize that a real need for protection in the employment context will be present only in the following situations:[56] (1) where the em-

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OF L. & SOCIAL PROBS. 181, 184 (1979).

[51] "[A]n employer may feel justified in seeking to make it more difficult for the employee to leave . . . by any effective device at hand. A covenant against post-employment competition may have the desired effect." Blake, *supra* note 8, at 652. *See also* Histand v. Nagorski, 37 Pa. D. & C.2d 157, 173 (1964) (facts surrounding the imposition of the non-competition agreement suggest "that the real occasion and objective was . . . to compel defendant's continued employment . . .").

[52] *See* Sidco Paper Co. v. Aaron, 465 Pa. 586, 610-14, 351 A.2d 250, 262-64 (1976) (Manderino, J., dissenting).

[53] *See* Welcome Wagon Int'l, Inc. v. Pender, 255 N.C. 244, 120 S.E.2d 739 (1961).

[54] *See, e.g.,* Josten's, Inc. v. Cuquet, 383 F. Supp. 295, 299 (E.D. Mo. 1974) ("A covenant that serves primarily to bar an employee from working for others or for himself in the same competitive field so as to discourage him from terminating his employment is a form of industrial peonage without redeeming virtue in the American economic order"); Whitmyer Bros. Inc. v. Doyle, 58 N.J. 25, 33, 274 A.2d 577, 581 (1971) ("employer has no legitimate interest in preventing competition as such"); Janitor Serv. Management Co., Inc. v. Provo, 34 A.D.2d 1098, 312 N.Y.S.2d 580 (1970) ("In whatever light the contract is viewed, the most that can be said is that it served only to protect plaintiff's business against competition and, in such event, any injunction which has only this effect has been proscribed as against public policy"); Rem Metals Corp. v. Logan, 278 Or. 715, 720-21, 565 P.2d 1080, 1083 (1977) ("skill and intelligence acquired or increased and improved through experience or through instruction received in the course of employment" does not form the basis of a protectible interest).

[55] *Cf.* Blake, *supra* note 8, at 656-57.

[56] J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:16 (1973). It should be noted that there is a line of cases developing which is not in accord with this statement. *See, e.g.,* Water Servs., Inc. v. Tesco Chems., Inc., 410 F.2d 163 (5th Cir. 1969); Wilson Certified Foods, Inc. v. Fairbury Food Prods., Inc. 370 F. Supp. 1081, 1087 (D. Neb. 1974); Cudahy Co. v. American Laboratories, Inc., 313 F. Supp. 1339 (D. Neb. 1970). These cases seem to hold that a "carefully spelled-out agreement can provide the basis for protection to matter which would otherwise not be entitled to protection." See 1 MILGRIM, *supra* note 8, at § 3.02(1). The rationale for this was expressed by Judge Warmas in Continental Group, Inc. v. Kinsley, 422 F. Supp. 838 (D. Conn. 1976):

> Moreover, it is by no means clear, as [defendant] appears to contend, that the test for enforcing a non-competition covenant is the same as would apply in obtaining an injunction to bar disclosure of trade secrets in the absence of a non-competition covenant or even an injunction to enforce a covenant not to disclose trade secrets. The non-competi-

ployer has trade secrets to which the employee had access;[57] (2) where the employee has had access to confidential customer information or developed close relations with customers or clients;[58] or (3) where the employee's services are deemed special, unique or extraordinary.[59] Accordingly, where a draftsman is called upon to prepare a non-competition agreement to protect what the employer considers to be confidential business information, the draftsman must initially consider whether one of the above situations is present. In this regard, it must be borne in mind that self-serving statements by an employer will not suffice to establish any of these situations in the absence of solid evidence,[60] and that the courts will "pierce any subterfuge

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tion covenant adds something to the protection available to the employer beyond what he would expect from the normal incidents of the employer-employee relationship or from a secrecy agreement. See Standard Brands v. Zumpe, 264 F. Supp. 254, 259 (E.D. La. 1967); see also Gillette Co. v. Williams, supra, 360 F. Supp. at 1177. While an injunction to bar competitive employment is a more drastic remedy than an injunction to bar disclosure of the former employer's secrets, in some circumstances it is an entirely appropriate remedy because of the conscious choices both the employer and employee made when the covenant was given. At that point the employer decided he would make the employee privy to confidential information concerning the employer's product development; if the employee preferred not to give the covenant, the employer could have assigned him elsewhere within the company or terminated his employment. Similarly, the employee decided to accept the opportunity to be involved in the employer's sensitive product development work and signed the covenant which he understood was a requirement of having that opportunity for work of an interesting nature. If he preferred not to be bound by the covenant, he could have declined the opportunity for the specialized work.

While these considerations would not warrant enforcement of covenants in situations where doing so would be unreasonable, they do provide justification for enforcement of otherwise reasonable covenants to protect against disclosure of all confidential information concerning the employer's development of a new product, including some confidential information that might not technically qualify as a trade secret.

Id. at 844. Support for this rationale can be found in the Supreme Court's decision in Snepp v. United States, 444 U.S. 507 (1980), where the Supreme Court held that the Central Intelligence Agency may act to protect the substantial government interest in protecting both the secrecy of information important to national security and in the appearance of confidentiality essential to the effective operation of the foreign intelligence service by imposing reasonable restrictions on employee activities that in other contexts might be protected by the first amendment.

There are, however, numerous cases that specifically reject these quotations. See Columbia Ribbon & Carbon Mfg. Co., Inc. v. A-1-A Corp., 42 N.Y.2d 496, 396 N.E.2d 4, 398 N.Y.S.2d 1004 (1977); 1 MILGRIM, *supra* note 8, at § 3.02 n.13 (collecting cases). The draftsman should therefore carefully consider the law of his/her jurisdiction before relying on this ground.

[57] For discussion and collection of the cases on this factor, see Annot., 41 A.L.R.2d 15, 102 (1955).

[58] For discussion and collection of the cases on this factor, see Annot., 43 A.L.R.2d 94, 162 (1955); Annot., 41 A.L.R.2d 15, 71 (1955).

[59] For discussion and collection of the cases on this point, see Kniffin, *Employee Non-Competition Covenants: The Perils of Performing Unique Services*, 10 RUT.-CAM. L.J. 25 (1978).

[60] *See, e.g.*, Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 55, 105 N.E.2d 685, 710 (1952) ("In self-serving 'Whereas' clauses an employer cannot state that he is going to confide something unique and hush, hush, and then merely disclose the A.B.C.s or Mother Goose Rhymes, and make that the basis of irreparable injury").

ostensibly justifying the exaction of a non-competition covenant by the employer."[61]

i) *Trade Secrets*

Where the asserted justification for a non-competition agreement is the protection of the employer's trade secrets, a court will determine whether in fact the employer's confidential business information constitutes a legally protectible trade secret, and if so, whether the employee had access to it.[62] If the information does not qualify as a trade secret or the information was never disclosed to the employee, the agreement will be deemed invalid.[63]

The definition of a trade secret most widely followed by the courts[64] is that set forth in the *Restatement of Torts,* which provides that "[a] trade secret may consist of any formula, pattern, device, or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."[65] Consistent with the *Restatement's* definition, protectible matter is virtually limitless. It includes the technology used in production, such as plans, formulae, specifications, and general "know-how,"[66] and may even include marketed equipment and machinery.[67] Similarly, non-technical business information such as customer lists,[68] raw material sources,[69] pricing and code

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[61] J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:16 (1973).

[62] *Id.;* Mixing Equip. Co., Inc. v. Philadelphia Gear, Inc., 436 F.2d 1308 (3d Cir. 1971); Hulsenbusch v. Davidson Rubber Co., Inc., 344 F.2d 730 (8th Cir. 1965); Gillette Co. v. Williams, 360 F. Supp. 1171 (D. Conn. 1973); Reed, Roberts Assocs., Inc. v. Strauman, 40 N.Y.2d 303, 353 N.E.2d 590, 386 N.Y.S.2d 677 (1976); Benco Int'l Importing Corp. v. Wilborn, 64 A.D.2d 571, 407 N.Y.S.2d 39 (1978); Legal Recording & Research Bureau, Ltd. v. Wicka, 62 A.D.2d 486, 405 N.Y.S.2d 526 (1978); J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:16 (1973).

[63] *See, e.g.,* Hydraulic Press Mfg. Co. v. Lake Erie Eng'r Corp., 132 F.2d 403 (2d Cir. 1942) (no access); Miller v. Fairfield Bay, Inc., 247 Ark. 565, 446 S.W.2d 660 (1969) (no trade secret); Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 105 N.E.2d 685 (1952) (no trade secret).

[64] Sinclair v. Aquarius Elec. Inc., 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974); General Aniline & Film Corp. v. Frantz, 50 Misc. 2d 994, 272 N.Y.S.2d 600, *modified,* 52 Misc. 2d 197, 274 N.Y.S.2d 634 (Sup. Ct. 1966); 1 MILGRIM, *supra* note 8, at § 2.01 (citing cases); Harding, *Trade Secrets and the Mobile Employee,* 22 BUS. LAW. 395, 398 ("every court applies the well-known *Restatement* definition") (1967).

[65] RESTATEMENT OF TORTS § 757, Comment b (1939).

[66] *See, e.g.,* A. TURNER, TRADE SECRETS 12-13 (1962); Ladas, *Legal Protection of Know-How,* 7 PAT. T.M. COPYRIGHT J. OF RESEARCH & EDUC. 397 (1963).

[67] *See, e.g.,* A.O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531 (6th Cir. 1934), *modified,* 74 F.2d 934 (1935).

[68] *See, e.g.,* Town & Country House & Homes Serv., Inc. v. Evans, 150 Conn. 314, 189 A.2d 390 (1963); Leo Silfen, Inc. v. Cream, 29 N.Y.2d 387, 278 N.E.2d 636, 328 N.Y.S.2d 423 (1972); Annot., 28 A.L.R.3d 7 (1969) (collecting cases).

[69] *E.g.,* Jet Spray Cooler, Inc. v. Crampton, 361 Mass. 835, 282 N.E.2d 921 (1972); Vulcan Detinning Co. v. Assmann, 185 A.D. 399, 173 N.Y.S. 334 (1918).

costs,[70] methods of doing business[71] and market research studies[72] may be protectible matter.[73]

A significant type of subject matter that cannot be maintained as a trade secret is that information used in a business which is nevertheless considered to belong to the firm's employees.[74] Specifically, this refers to the skills, experience and knowledge acquired by the employee during the course of his/her employment.[75] There can be no doubt that it is most difficult to "draw a line" between training in the general skills and knowledge of the trade, and training which imparts [trade secrets] pertaining especially to the employer's business.[76] The difference, however, is important as the former is not deemed to be an interest of the employer entitled to protection but the latter is.[77]

Rem Metals Corp. v. Logan[78] is illustrative. In *Logan,* the plaintiff brought an action to enforce a non-competition agreement executed by an ex-employee, a precision welder of titanium castings for jet aircraft engines. It was contended by plaintiff that it had a sufficient "protectible interest" in the skills and knowledge of the ex-employee so as to justify enforcement of the agreement. After noting that "skill and intelligence acquired or increased and improved through experience or through instructions received in the course of employment" would not alone provide a justification for the non-competition agreement,[79] the court examined the record to see if trade secrets, *inter alia,* were present.[80] Finding none, the court held that there was no interest that was entitled to protection by enforcement of the decree.

Despite the exception noted above, a wide variety of business items and information can qualify as protectible subject matter. Dispute as to whether business items or information qualify as trade secrets typically focuses on the other requirements of a protectible trade secret. They are that: (1) the

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[70] *E.g.,* Simmons Hardware Co. v. Waibel, 1 S.D. 488, 47 N.W. 814 (1891).

[71] *E.g.,* Clark v. Bunker, 453 F.2d 1006 (9th Cir. 1972); Service Systs. Corp. v. Harris, 41 A.D.2d 20, 341 N.Y.S.2d 702 (1973).

[72] *E.g.,* Western Electroplating Co. v. Henness, 180 Cal. App. 2d 442, 4 Cal. Rptr. 434 (1960).

[73] *See generally* Note, *Trade Secret Protection of Non-Technical Competitive Information,* 54 IOWA L. REV. 1164 (1969).

[74] *See, e.g.,* Merrill Lynch, Pierce, Fenner & Smith, Inc. v. E.F. Hutton & Co., 403 F. Supp. 336 (E.D. Mich. 1975); Richard M. Krause, Inc. v. Gardner, 99 N.Y.S.2d 592 (Sup. Ct. 1950).

[75] *See, e.g.,* Blake, *supra* note 8, at 652-53; Redmond, *Corporate Recruiting—Unfair Competition Considerations,* 24 BUS. LAW. 459 (1969).

[76] *See* Note, *Industrial Secrets and the Skilled Employee,* 38 N.Y.U. L. REV. 324, 326 (1963); *Developments in the Law—Competitive Torts,* 77 HARV. L. REV. 888, 950-51 (1964). A test frequently employed to distinguish between the two is whether the employee would have acquired the skill, knowledge and experience had he been employed by direct competitors of the employer. *See* A. TURNER, TRADE SECRETS 160 (1962).

[77] *See* Paramount Pad Co., Inc. v. Baumrind, 4 N.Y.2d 393, 151 N.E.2d 609, 175 N.Y.S.2d 809 (1958).

[78] 278 Or. 715, 565 P.2d 1080 (1977).

[79] *Id.* at 720-21, 565 P.2d at 1083.

[80] *Id.* at 722, 565 P.2d at 1084.

item or information alleged to be a trade secret is not a matter of common knowledge in the trade; (2) reasonable precautions have been taken to maintain secrecy, and (3) the item or information is of some value to the employer.[81] Thus, the task of the draftsman is clear when the asserted justification for a non-competition agreement is that the confidential business information is a trade secret. First, he/she must assure himself/herself that the employer is not using this argument as a subterfuge simply to keep the employee from putting to use with a competitor of the employer the skills and experience gained by working in its employ. Secondly, the draftsman must satisfy himself/herself that the requirements for a protectible trade secret are all met.[82]

ii) *Customers and Clients*

Where the employer's confidential business information does not qualify as a trade secret, and thus the trade secret rationale is not available as a basis to justify the agreement, the draftsman should consider whether the agreement can be supported on the ground that it is necessary because the employee has had access to confidential customer information or has developed close relations with customers or clients. The underlying theory is that an employer has sufficient interest in retaining present customers where the employee's relationship with the customer or client, or knowledge of the customers and their requirements is such that there is a substantial risk that the employee may be able to divert all or part of the business upon his/her termination of employment.[83]

But of what value is this seemingly limited—as opposed to the trade secret rationale—justification to an employer who wants to protect his/her confidential business information? This justification may be of significance in two situations. First, where the asserted confidential business information consists of customer lists or other information concerning the customers, and such information cannot be characterized as a trade secret,[84] this justifi-

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[81] *See* Greenberg v. Croydon Plastics Co., 378 F. Supp. 806 (E.D. Pa. 1974); E. KISTNER & J. LAHR, AN INTELLECTUAL PROPERTY LAW PRIMER 117-51 (1975); 1 MILGRIM, *supra* note 8, at §§ 2.01-2.08; Hutter, *supra* note 3, at 13-22, for a discussion of these elements.

[82] For a discussion of how the draftsman can accomplish this see S. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD? TRADE SECRETS AND THE MOBILE EMPLOYEE 197-200 (1979).

[83] *See, e.g.*, Budget Rent-A-Car Corp. v. Fein, 342 F.2d 509 (5th Cir. 1965); Service Systs. Corp. v. Harris, 41 A.D.2d 20, 341 N.Y.S.2d 702 (1973); Blake, *supra* note 8, at 653-55; Annot., 43 A.L.R.2d 94, 164-75 (1955); Annot., 41 A.L.R.2d 15, 71-102 (1955); RESTATEMENT (SECOND) OF CONTRACTS § 330, Comment g (Tent. Draft No. 12, 1977).

[84] It is to be noted that some but not all customer lists may be trade secrets. *See, e.g.*, Suburban Gas, Inc. v. Bockelman, 157 Colo. 78, 401 P.2d 268 (1957); Leo Silfen, Inc. v. Cream, 29 N.Y.2d 387, 278 N.E.2d 636, 328 N.Y.S.2d 423 (1972); 2 R. CALLMANN, UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 54.2(c)(2) (3d ed. 1968) (collecting cases); 1 MILGRIM, *supra* note 8, at § 2.09(7) (collecting cases); Annot., 28 A.L.R.3d § 10 (1969) (collecting cases).

cation may form the basis for enforcement of the agreement and the prevention of use or disclosure of the information. A recent case that exemplifies this point is *Technicolor, Inc. v. Traeger.*[85] In *Technicolor,* plaintiff brought an action to enjoin its ex-employee from continuing in the employment of a competing business in violation of a non-competition agreement. The contention was that the ex-employee had access to customer lists and confidential pricing information. The court upheld the reasonableness of the agreement. While refusing to characterize the information as being or not being a trade secret, the court nevertheless recognized that the agreement was necessary to protect the employer under the customer relationship justification.[86]

A second situation where this justification can be utilized is where the asserted confidential business information to which the employee has had access, and which the employer does not want to be used or disclosed, does not rise to the level of a trade secret and does not consist of information dealing with customers. *Rudiger v. Kenyon*[87] is illustrative. In that case the employer asserted as its justification for the imposition of a non-competition agreement that the employee had knowledge of its confidential business information consisting of a "refined method of training [its] votaries in sales, service and design for a specific use,"[88] and the agreement itself prohibited customer solicitation. The employer seemed especially desirous of protecting the former. Although the court determined that it did not constitute a legally protectible trade secret, the agreement was enforced because of the employee's association with the employer's customers. Thus, the employer achieved the desired objective—to prohibit competing employment where the employee could utilize its confidential business information—by invoking the customer justification.

In invoking this justification as to customer or client relations, it is important to keep in mind that not every employee can come within its scope. Only with respect to those employees who are in a position to control, either totally or partially, the business of the employer's customers will an employer be able to utilize this justification.[89] Thus, "one must distinguish between different types of employment to determine the probability that the employee will take the employer's customers with him."[90] In making this determination, the courts[91] frequently utilize the three criteria suggested by

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[85] 551 P.2d 163 (Hawaii 1976). *See also* North Pac. Lumber Co. v. Moore, 275 Or. 359, 551 P.2d 431 (1976).

[86] 551 P.2d at 166, 170.

[87] 32 Misc. 2d 804, 224 N.Y.S.2d 545 (Sup. Ct. 1962).

[88] *Id.* at 806, 224 N.Y.S.2d at 547.

[89] *Compare* Service Systs. Corp. v. Harris, 41 A.D.2d 20, 341 N.Y.S.2d 702 (1973) (opportunity present) *with* Janitor Serv. Management Co. v. Provo, 34 A.D.2d 1098, 312 N.Y.S.2d 660 (1970) (opportunity not present).

[90] J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:17 (1973).

[91] *See, e.g.,* North Pac. Lumber Co. v. Moore, 275 Or. 359, 551 P.2d 431 (1976). *See also* Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 47-54, 105 N.E.2d 685, 705-09

Professor Blake:

> The most important factors seem to be (1) the frequency of the employee's contacts with customers and whether they are the employer's only relationships with those customers, (2) the locale of the contact, and (3) perhaps most important, the functions performed by the employee, [the nature of the product or service involved, and the degree of authority and responsibility of the employee].[92]

As to claims of confidential customer information, the courts are apt to scrutinize this very closely. Such scrutiny was present in *Reed, Roberts Associates, Inc. v. Strauman.*[93] The employer in *Reed* argued that by virtue of the employee's position he was privy to customer lists. The court, after observing that with respect to the employer's line of business,[94] every company with employees would be a prospective customer noted, "It strains credulity to characterize this type of information as confidential [and thus protectible]."[95] In sum the list of customers cannot be readily discoverable through public sources.[96]

Thus, in attempting to avail oneself of this customer relationship justification, the draftsman must initially determine whether the employee in fact had any contact at all with customers. If not, then obviously this ground cannot be invoked.[97] If there were contact, then a determination must be made whether the contact was of such a nature that it may lead the employee to take the customers with him/her.[98] If there is no such possibility, this asserted justification must then fail.[99] With respect to "confidential customer information," an effort will have to be made to determine whether such information is simply generally available information, in which case the agreement cannot be enforced on this ground.[100]

(1952).

[92] Blake, *supra* note 8, at 659.

[93] 40 N.Y.2d 303, 353 N.E.2d 590, 386 N.Y.S.2d 677 (1976).

[94] The business involved supplying advice and guidance to employers with respect to their obligations under state unemployment laws.

[95] 40 N.Y.2d at 308, 353 N.E.2d at 594, 386 N.Y.S.2d at 680.

[96] J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:17 (1973).

[97] *See* Richmond Bros. Inc. v. Westinghouse Broadcasting Co., 357 Mass. 106, 256 N.E.2d 304 (1970); Janitor Serv. Management Co. v. Provo, 34 A.D.2d 1098, 312 N.Y.S.2d 660 (1970).

[98] *See* Hydraulic Press Mfg. Co. v. Lake Erie Eng'r Corp., 132 F.2d 403 (2d Cir. 1942). In this regard it would seem that employees, such as route men and house-to-house solicitors, who are the employer's only primary contact with customers, would be in a position to divert the customers. *See, e.g.*, Pilgrim Coat, Apron & Linen Serv. Inc. v. Krzywulak, 141 N.J. Eq. 212, 56 A.2d 584 (1948); Blaser v. Linen Serv. Corp., 135 S.W.2d 509 (Tex. Civ. App. 1939).

[99] *See* Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 105 N.E.2d 685 (1952).

[100] Livingston, Inc. v. Macher, 30 Del. Ch. 94, 54 A.2d 169 (1947); Clark Paper & Mfg. Co. v. Stenacher, 236 N.Y. 312, 140 N.E. 708 (1923).

iii) *Unique Services*

In *Purchasing Associates, Inc. v. Weitz,*[101] the New York Court of Appeals explicitly recognized that non-competition agreements could be justified if "the employee's services are deemed 'special, unique or extraordinary' . . . even though the employment did not involve the possession of trade secrets or confidential customer lists."[102] The *Weitz* decision was significant because prior to it, uniqueness as a ground for enforcement had not been frequently utilized.[103] In the aftermath of *Weitz,* however, more courts have employed the uniqueness rationale.[104]

Despite the numerous cases that are being decided on this ground, it is still not clear what in fact constitutes uniqueness.[105] At the very least there can be no doubt that the mere fact the employee excels in his work does not make his services unique.[106] As the court observed in *Weitz,* "More must, of course, be shown to establish such a quality than that the employee excels at his work or that his performance is of high value to his employer."[107] Rather, there must also be some proof that his/her services are so significant that replacement would be impossible or that loss of the services would cause irreparable harm to the employer.[108]

In preparing a non-competition agreement, the draftsman should keep this "uniqueness" justification in mind when the other two cannot be utilized. In light of its apparent expansiveness, it could be applicable to many employees in possession of confidential business information which may not

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[101] 13 N.Y.2d 267, 196 N.E.2d 245, 246 N.Y.S.2d 600 (1963).

[102] *Id.* at 272, 196 N.E.2d at 248, 246 N.Y.S.2d at 604.

[103] *See* Blake, *supra* note 8, at 647 n.77. *Cf.* RESTATEMENT (SECOND) OF CONTRACTS § 330, Comment b (Tent. Draft No. 12, 1977). It should be noted, however, that the court in *Weitz* cited several other appellate cases in support of the standard: Frederick Bros. Artists Corp. v. Yates, 296 N.Y. 820, 72 N.E.2d 13 (1947), *aff'g* 271 A.D. 69, 62 N.Y.S.2d 714 (1946) (services of a theatrical booking agent not of special, unique, or extraordinary character, thus injunctive relief not warranted); Clark Paper & Mfg. Co. v. Stenacher, 236 N.Y. 312, 140 N.E. 708 (1923) (sales experience, competency, and efficiency not so rare as to require injunction to prevent irreparable loss to employer); Kaumagraph Co. v. Stampagraph Co., 235 N.Y. 1, 138 N.E. 485 (1923) (defendant's knowledge of how to use patented device not of special or unique character); Corpin v. Wheatley, 277 A.D. 212, 237 N.Y.S. 205 (1929) (beauty parlor employee's services neither unique nor extraordinary); Magid v. Tannenbaum, 164 A.D. 142, 149 N.Y.S. 445 (1914) (tailor possessed neither special, unique, nor extraordinary skills because his qualifications were the same as thousands of others similarly employed).

[104] *See generally* Kniffin, *Employer Non-Competition Covenants: The Perils of Performing Unique Services,* 10 RUT.-CAM. L.J. 25 (1978), which contains an exhaustive collection and discussion of the cases.

[105] *Id.* at 53-54.

[106] *See* Clark Paper & Mfg. Co. v. Stenacher, 236 N.Y. 312, 140 N.E. 708 (1923); Frederick Bros. Artists Corp. v. Yates, 271 A.D. 69, 62 N.Y.S.2d 714 (1946), *aff'd,* 296 N.Y. 820, 72 N.E.2d 13 (1947).

[107] 13 N.Y.2d at 274, 196 N.E.2d at 249, 246 N.Y.S.2d at 605.

[108] *Id. But see* Dallas Cowboys Football Club, Inc. v. Harris, 348 S.W.2d 37 (Tex. Civ. App. 1961).

constitute a trade secret.[109] On the other hand, its broadness may invite a court to disregard it.[110]

iv) *Drafting Suggestions*

These three interests[111] must be considered and recognized when the agreement is drafted. In this regard, after the draftsman is satisfied that one or more of these interests is present, the agreement should specify the nature of the employer's interest being protected, the way or ways by which an employee may appropriate or undermine it, and the importance of protecting it from such action. Several reasons support this point. First, such language puts the employee on notice of the employer's claims, and can make it difficult for the employee who signed the agreement to deny later that such an interest existed or that he/she had access to it or that he/she was in a position to appropriate it.[112] Secondly, with respect to confidential business information that is claimed to be a trade secret, it provides an opportunity to define the trade secrets to which the employee has access. Such definition should be made in terms of use in business and the employee's knowledge by reason of his employment.[113]

b. Scope of the Competitive Restriction

In considering the second aspect of reasonableness, the draftsman confronts a rather massive dilemma, making his/her job one that is fraught with uncertainty. The dilemma stems from the fact that the law on this aspect

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[109] *Cf.* Bradford v. New York Times Co., 501 F.2d 51 (2d Cir. 1974).

[110] *See* J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:18 (1973).

[111] Counsel may also want to consider that line of cases which adopts another basis for upholding the agreement. *See* note 56 *supra*.

[112] *See* 1 MILGRIM, *supra* note 8, at § 3.02(6)(c). In this regard, it is to be noted that enforcement may be denied if the employee does not know that the information is confidential and valuable. *Cf.* Shatterproof Glass Corp. v. Guardian Glass Co., 322 F. Supp. 854 (E.D. Mich. 1970), *aff'd*, 462 F.2d 1115 (6th Cir.), *cert. denied*, 409 U.S. 1039 (1972); National Starch Prods., Inc. v. Polymer Indus., Inc., 273 A.D. 732, 79 N.Y.S.2d 357, *appeal denied*, 274 A.D. 822, 81 N.Y.S.2d 278 (1948).

[113] The definition should also encompass trade secrets as to which an employee may be a developer or co-developer to avoid the consequences of Wexler v. Greenberg, 399 Pa. 569, 160 A.2d 430 (1960), *criticized in* 74 HARV. L. REV. 1473 (1961). In *Wexler*, the Pennsylvania Supreme Court held that an ex-employee could not be enjoined from using, in his new employment, secret formulas that he had developed during the course of his previous employment. The court reasoned that since the employee had developed these formulas as part of his routine employment—as contrasted to development as a specific research task supervised and assisted by his employer, and in the absence of a covenant covering this kind of information, he was free to use the formulas he developed. *Cf.* Basic Chems., Inc. v. Benson, 251 N.W.2d 220 (Iowa 1977).

consists of a mass of factually distinct and irreconcilable decisions.[114] Thus, it is frequently asserted that each case is to be determined on its own particular facts, and thus the same identical agreement may be reasonable and valid under one set of circumstances, and unreasonable and invalid under another set of circumstances.[115]

Analysis of the decisions suggests, however, that the competitive restrictions on employment will be deemed reasonable if they: (1) cover a geographical area in which the possible use of the trade secrets or confidential information or employee's unique skills will pose a substantial threat to the employer's business; (2) last for a period of time which will legitimately reflect the expected life of the trade secret or other confidential information and not impose undue hardship on the particular employee; and (3) restrict competition in the specific type of business activity in which the employee was engaged or in which potential competition is a realistic possibility.[116]

Each one of these factors will now be separately considered. While discussion is limited to one factor at a time, it must be kept in mind that in a determination of overall reasonableness they are not independent and unrelated aspects of the non-competition agreement. Each must be considered in determining the reasonableness of the other.[117]

i) *Territorial Restrictions*

It is well established that the old view[118] that any territorial restraint covering an entire state or the nation is *per se* unreasonable is no longer valid.[119] The modern view is that the reasonableness of the territorial restraint depends not so much on the geographical size of the territory as on the reasonableness of the restriction in view of the facts and circumstances of the case.[120] In other words, the attitude of the courts in dealing with territorial restraints seems to be that they will be enforced when there is a show-

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[114] *See* Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 105 N.E.2d 685 (1952).

[115] *Id.*

[116] Blake, *Restrictive Covenants in Employment Agreements and Their Possible Use for the Protection of Trade Secrets*, in PROTECTION AND PROFITING FROM TRADE SECRETS 36-37 (P.L.I. 1975).

[117] *See, e.g.*, Hebb v. Stump, Harvey & Cook, Inc., 25 Md. App. 478, 334 A.2d 563 (1975); Jewel Box Stores Corp. v. Morrow, 272 N.C. 659, 158 S.E.2d 840 (1968).

[118] *See* Annot., 43 A.L.R.2d 94, 128-29 (1955).

[119] *See, e.g.*, Auto Club Affiliates, Inc. v. Donahey, 281 So. 2d 239 (Fla. App. 1973), *cert. denied*, 285 So. 2d 28 (Fla. 1973); All Stainless, Inc. v. Colby, 364 Mass. 773, 308 N.E.2d 481 (1974). 14 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS § 1638 (3d ed. 1972) (collecting cases). *But see* Parish v. Schwartz, 344 Ill. 563, 176 N.E. 757 (1931).

[120] *See, e.g.*, Wilson v. Clarke, 470 F.2d 1218 (1st Cir. 1972); Budget Rent-A-Car Corp. of America v. Fein, 342 F.2d 509 (5th Cir. 1965); Continental Group, Inc. v. Kinsley, 422 F. Supp. 838 (D. Conn. 1976); Knoebel Mercantile Co. v. Siders, 165 Colo. 393, 439 P.2d 355 (1968); Karpinski v. Inglasci, 28 N.Y.2d 45, 268 N.E.2d 751, 320 N.Y.S.2d 1 (1971).

ing that such restraint is necessary for the employer's protection.[121]

If the non-competition agreement is asserted to be justifiable because the employee has had access to the employer's trade secrets, the area necessary for the protection of the employer's interest will generally be deemed the area throughout which the employer's business activities extend.[122] For example, in *Harwell Enterprises, Inc. v. Hein,*[123] the Supreme Court of North Carolina upheld a non-competition agreement encompassing the entire nation for a period of two years. The employer was engaged in various business endeavors including all phases of silk screen processing, plastics, importing and various other ventures throughout the United States. The court noted that the employee had acquired trade secrets relating to the business. In upholding the agreement the court stated:

> Because of the increased technical and scientific knowledge used in business today, the emphasis placed upon research and development, the new products and techniques constantly being developed, the nation-wide activities (even world-wide in some instances) of many business enterprises, and the resulting competition on a very broad front, the need for such restrictive covenants to protect the interest of the employer becomes increasingly important.[124]

Similarly, in *Hulsenbusch v. Davidson Rubber Co.,*[125] a former employee was enjoined from designing and manufacturing interior automotive parts such as padded dashboards, arm rests and sun visors in competition with his former employer. The restriction extended throughout the United States for a period of two years and was enforced throughout the entire territory. The area restriction was coextensive with the employer's trade, and disclosure of trade secrets anywhere in the country could seriously injure the employer's nationwide business. Likewise, in *Continental Group v. Kinsley*[126] the court upheld a territorial restraint covering *inter alia,* the United States. In that case, the ex-employee had access to certain trade secrets of the employer dealing with the process of plastic injection blow-molding. The restraint was deemed reasonable based upon evidence that other firms were attempting to duplicate the process throughout the United States.

Thus, if the employer's industry is a national or world-wide industry, or if the employer faces competition throughout the nation or world or has customers throughout the nation or world, nationwide or world-wide territorial limitations should not be questioned.[127] As Professor Blake has observed,

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[121] *See* Blake, *supra* note 8, at 679-81.

[122] *Id.* This point would also seem to be applicable where the justification is that the employee has "unique skills." *Cf.* Continental Group, Inc. v. Kinsley, 422 F. Supp. 838 (D. Conn. 1976). This conclusion is, of course, premised on well recognized mobility of employees. See note 5 *supra.*

[123] 276 N.C. 475, 173 S.E.2d 316 (1970).

[124] *Id.* at 479, 173 S.E.2d at 320.

[125] 344 F.2d 730 (8th Cir. 1965).

[126] 422 F. Supp. 838 (D. Conn. 1976).

[127] *See* Briggs v. R.R. Donnelley & Sons Co., 446 F. Supp. 153 (D. Mass.) *aff'd* 589 F.2d 39

"Today, the growth of national businesses and the free mobility of information has necessitated that broader geographic markets be used for the protection of trade secrets."[128] However, if the circumstances surrounding the restrictions do not fit into one of the above-mentioned competitive situations, a nationwide or world-wide restriction will be deemed unreasonable, and will not be upheld by a court.[129] In this situation the restriction should be limited only to that area where the employer needs protection.[130]

Where the non-competition agreement is asserted to be justifiable on the basis of the customer or client interest, it can be said as a general rule that a territorial restraint will be upheld as reasonable "where the area of the restraint is limited to the territory in which the employee during the term of his employment was able to establish contact with his employer's customers."[131] Thus, where an agreement prevents an employee from working in an area where he had not established any contact with his employer's customers or clients, the restraint will be deemed unreasonable.[132]

Two decisions from the Wisconsin Supreme Court are illustrative. In *Lakeside Oil Co. v. Slutsky*,[133] plaintiff brought an action against the defendant, a salesman, to enforce an agreement which provided in part that he would not "re-enter the gasoline and petroleum business in Milwaukee for a space of two (2) years, either directly or indirectly." The restriction was upheld as reasonable because it was limited to the area where the defendant principally operated. On the other hand, in *Union Central Life Insurance Co. v. Balistrieri*,[134] decided four years later, the court refused to enforce an agreement which prohibited an employee from selling insurance in any state where the company was licensed to operate. The restraint was held unreasonable because the employee had limited his activity to Milwaukee.

There are, however, some cases which have enforced a restraint which encompassed territory extending beyond the employee's sales territory. Thus,

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(1st Cir. 1978); Bender, *Trade Secret Protection of Software*, 38 GEO. WASH. L. REV. 909, 934 (1970); Blake, *supra* note 8, at 679-81.

[128] Blake, *Restrictive Covenants in Employment Agreements and Their Possible Use for the Protection of Trade Secrets*, in PROTECTION AND PROFITING FROM TRADE SECRETS 33, 37 (P.L.I. 1975).

[129] *See* J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:13 (1973). *Cf.* International Election Syst. Corp. v. Shoup, 452 F. Supp. 684, 698 (E.D. Pa. 1978), *aff'd* 595 F.2d 1212 (3d Cir. 1979).

[130] *See* Orkin Exterminating Co. v. Mills, 218 Ga. 340, 127 S.E.2d 796 (1962). *Cf.* On-Line Systs., Inc. v. Staib, 479 F.2d 308 (8th Cir. 1973); Delta Corp. of America v. Sebrite Corp., 391 F. Supp. 638 (E.D. Tenn. 1974).

[131] Annot., 43 A.L.R.2d 94, 117 (1955). *See* All Stainless, Inc. v. Colby, 364 Mass. 773, 308 N.E.2d 481 (1974); Allright Auto Parks, Inc. v. Berry, 219 Tenn. 280, 409 S.W.2d 361 (1966); Wisconsin Ice & Coal Co. v. Lueth, 213 Wis. 42, 250 N.W. 819 (1933).

[132] *See* Morgan's Home Equip. Corp. v. Martucci, 390 Pa. 618, 136 A.2d 838 (1957); Delmar Studios v. Kinsey, 233 S.C. 313, 104 S.E.2d 338 (1958); Spinks v. Riebold, 310 S.W.2d 668 (Tex. Civ. App. 1958); Annot., 43 A.L.R.2d 94, 175-76 (1955) (collecting cases).

[133] 8 Wis. 2d 157, 98 N.W.2d 415 (1959).

[134] 29 Wis. 2d 265, 120 N.W.2d 126 (1963).

in *Trans-American Collection, Inc. v. Continental Account Servicing House, Inc.*,[135] a court upheld a nationwide territorial restriction against a salesman despite the fact that he had been given only a nine-state territory. The court emphasized that the employee had national exposure because his employer had reproduced his sales presentations, and had invited him to speak to sales clinics and its national convention where he was praised as the company's best salesman. Upon these facts the court held that the salesman's influence extended far beyond his own territory, and therefore enforcement of the agreement was justified. Other courts have utilized similar rationale to uphold a restriction broader than the area of former activity for the employee.[136]

In sum, the permissible territorial coverage of a competitive restraint is limited to that area in which the employer could suffer economic harm from the employee's activities. Therefore, in order to optimize the likelihood that a non-competition agreement will be upheld, the draftsman must assure himself/herself that the desired geographical area is supportable in light of the employer's need for protection.

ii) *Time Restrictions*

To determine whether the specified time limitation is reasonable, the courts employ essentially the same analysis used for geographical restraints, considering whether the duration of the restraint is necessary to protect the employer.[137] In this regard the permissible length of the time restraint will depend upon the interest that the employer is seeking to protect.[138] Additionally, it should be noted that the reasonableness of a time restriction will depend in many instances on the territorial restriction. As one commentator has observed, "one may lawfully agree not to compete in a particular business, in a reasonably limited territory, during the remainder of his life. . . . Where a restraint provides for a limited period of time, it may be enforceable although it is not limited in point of space."[139]

Where the non-competition agreement is being imposed for the purpose of protecting the employer's trade secrets, the scope of trade secret protection should be borne in mind in drafting the time restraints. Unlike patent pro-

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[135] 342 F. Supp. 1303 (D. Utah 1972).

[136] *See, e.g.*, New England Tree Expert Co. Inc. v. Russell, 306 Mass. 504, 510-11, 28 N.E.2d 997, 1000 (1940); Walker Coal & Ice Co. v. Westerman, 263 Mass. 235, 160 N.E. 801 (1928).

[137] *See, e.g.*, Scott v. General Iron & Welding Co., 170 Conn. 132, 368 A.2d 111 (1976); Horne v. Radiological Health Serv., P.C., 83 Misc. 2d 446, 371 N.Y.S.2d 948 (Sup. Ct. 1975), *aff'd*, 51 A.D.2d 544, 379 N.Y.S.2d 374 (1976); Jacobson & Co., Inc. v. International Environment Corp., 427 Pa. 439, 235 A.2d 612 (1967); Blake, *supra* note 8, at 677.

[138] Examination of the cases provides decisions, supporting and invalidating any time restraint, from less than one year to unlimited durations. *See* Annot., 41 A.L.R.2d 15 (1955) (collecting cases).

[139] 14 S. Williston, A TREATISE ON THE LAW OF CONTRACTS § 1638 (3d ed. 1972).

tection, trade secret protection is theoretically perpetual in duration.[140] The actual length of protection depends, however, upon one's success in keeping it secret, and it is subject to being lost by independent discovery or other fair means of acquiring the trade secret.[141] In light of this, the protection of trade secrets does not justify an indefinite time limitation.[142] Rather, the time clause should provide for a specified period of time.[143] The question that arises, then, is how is such a period to be determined.

Some courts have held that a time limitation will be held reasonable if it corresponds to the useful life of the trade secret.[144] In other words, a time restraint will be deemed invalid if it extends to a period of time in the future when the trade secret would be so out-of-date as to be relatively useless to a former employee. Thus, in *Rector-Phillips-Morse, Inc. v. Vroman,*[145] at issue was the validity of a three-year restriction to protect alleged trade secrets. The trade secrets consisted of information concerning the availability of commercial and residential properties for sale, and potential purchasers. The court held that the time restriction was unreasonable. Its decision was premised on the fact that the evidence indicated that the useful life of the information was far below three years.[146]

While the useful life standard is a workable tool in determining reasonableness, it can only be utilized with respect to trade secrets consisting of information which in fact will lose its business significance over a period of time. What, then, would be a reasonable period of time for a trade secret which will be of continuing value and give a competitive advantage to its owner as long as no one else has legitimately acquired it? The case law does not provide any answers.[147] The suggestion is that the standard the courts employ in determining the duration of injunctive relief upon a finding of trade secret misappropriation—an employee should be enjoined from the

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[140] *See* Kewanee Oil Co. v. Bicion Corp., 416 U.S. 470, 475-76 (1974). One commentator has cited these examples of longevity: "[F]ormulas for the mixing of ingredients for cymbals (336 years in the Zildjian family) or aromatic bitters (Angostura-Wupperman) or Eau de Cologne 'No. 4711' made by generations of the Muelhens family in Cologne) or Smith Brother's Black Cough Drops (said to be over 100 years old)." Klein, *The Technical Trade Secret Quadrangle: A Survey,* 55 Nw. U.L. Rev. 437, 438 (1960). Added to this list should be the formula for Coca-Cola which has never been duplicated. *See* Time, Aug. 22, 1977, at 44.

[141] *See* E.I. DuPont DeNemours & Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970), *cert. denied,* 400 U.S. 1024 (1971); Sinclair v. Aquarius Elecs., Inc., 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1978); Boehm v. Wheeler, 65 Wis. 2d 668, 223 N.W.2d 536 (1974); S. Oppenheim & G. Weston, Unfair Trade Practices and Consumer Protection 318 (1974).

[142] Blake, *supra* note 8, at 678.

[143] *Id.*

[144] *See, e.g.,* Rector-Phillips-Morse, Inc. v. Vroman, 253 Ark. 750, 489 S.W.2d 1 (1973); Eastman Kodak Co. v. Powers Film Prods., Inc., 189 A.D. 556, 179 N.Y.S. 325 (1919); Bender, *Trade Secret Protection of Software,* 38 Geo. Wash. L. Rev. 909, 934 (1970); Blake, *supra* note 8, at 678. *Cf.* Todd Chem. Co. v. Distefano, 30 A.D.2d 879, 292 N.Y.S.2d 811 (1959).

[145] 253 Ark. 750, 489 S.W.2d 1 (1973).

[146] *Id.* at 755, 489 S.W.2d at 3.

[147] *See* Richards, *Drafting and Enforcing Restrictive Covenants Not to Compete,* 55 Marq. L. Rev. 241, 245 (1972); Annot., 41 A.L.R.2d 15 (1955).

use of a wrongfully appropriated trade secret for a period of time equal to the time period the employee would otherwise have had to use to legitimately acquire the trade secret[148]—should be utilized in these circumstances. This standard seems appropriate since it denies the ex-employee unjust enrichment and gives the employer sufficient protection for its interests. It is, therefore, fully consistent with the general test of reasonableness utilized in determining the validity of non-competition agreements.[149]

When the restraint is being imposed upon the basis of the customer or client interest, the courts generally hold that the time duration is reasonable "only if it is no longer than necessary for the employer to put a new man on the job and for the new employee to have a reasonable opportunity to demonstrate his effectiveness to the customers."[150] Analysis of the cases gives further guidance in that it indicates that "when an employee's contacts with the customers are regular and frequent a shorter period of time is needed by the employer than when, as here, the contacts are made at relatively long intervals."[151]

Accordingly, the permissible time restraint will turn upon what interest an employer is attempting to protect and whether the specified period of time is rationally related to achieving protection of that interest. Thus, in drafting a time restraint to support trade secret protection, its effective period should not run beyond a period corresponding to the trade secret's useful life, or where the trade secret will not necessarily become obsolete over the passage of time, beyond the period it would take to develop the trade secret independently. For many trade secrets, this period may not last

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[148] *See, e.g.,* Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965); 2 MILGRIM, *supra* note 8, § 7.08(1) (collecting cases); Johnson, *Remedies in Trade Secret Litigation,* 72 NW. U. L. REV. 1004, 1030 (1978); Comment, *Trade Secrets: How Long Should an Injunction Last?,* 26 U.C.L.A. L. REV. 203 (1978); Annot., 28 A.L.R.3d 7, 131-35 (1969 & Supp. 1980) (collecting cases).

The rationale for this standard was persuasively articulated in the *Winston* case where the court noted that:

> By enjoining use of the trade secrets for the approximate period it would require a legitimate . . . competitor to develop a successful machine after public disclosure of the secret information, the district court denied the employees any advantage from their faithlessness, placed [plaintiff] in the position it would have occupied if the breach of confidence had not occurred prior to the public disclosure, and imposed the minimum restraint consistent with the realization of these objectives upon the utilization of the employees' skills.

350 F.2d at 142.

[149] *See, e.g.,* Reed, Roberts Assocs. v. Strauman, 40 N.Y.2d 303, 353 N.E.2d 590, 386 N.Y.S.2d 677 (1976); Career Placement, Inc. v. Vaus, 77 Misc. 2d 788, 354 N.Y.S.2d 764 (Sup. Ct. 1974).

[150] Blake, *supra* note 8, at 677 (collecting cases). This rule would also seem applicable to cases where the restraint is justified on the ground that the employee's services are unique. *Cf.* Kreider, *Trends in the Enforcement of Restrictive Employment Contracts,* 35 U. CIN. L. REV. 16, 22 (1966).

[151] Lakeside Oil Co. v. Slutsky, 8 Wis. 2d 157, 164, 98 N.W.2d 415, 420 (1959). *See* Toulmin v. Becker, 69 Ohio L. Abs. 109, 124 N.E.2d 778 (1954).

longer than a few years, but for others it may last considerably longer. The facts before the draftsman will consequently dictate what will be an appropriate period of time. If the protectible interest is the customer or client interest, the duration of the non-competition agreement should be no longer than it would take the employer to train a new employee to assume effectively the ex-employee's duties. This, too, will depend upon the facts before the draftsman. In any event, in both instances the specified period should be factually supportable.

iii) *Activity Restrictions*

The last factor the courts analyze in determining reasonableness is the scope of the activities that the agreement prohibits the employee from performing.[152] With respect to this factor, the courts adhere to the view that the activity restriction must be similar to the nature of the activities that the employee was engaged in during the course of his employment.[153]

Pursuant to this view, a restraint which prohibits the employee from obtaining employment with a competitor of the employer in any capacity (*e.g.*, supervisor of manufacturing or salesman, later employed as non-salesman) will be deemed unreasonable.[154] Similarly, a restriction which would prohibit an employee with a specialized background from working in his/her general area of expertise for a company that does not compete with the employer (*e.g.*, chemist in waste disposal, later employed as chemist in bio-medical research) will be held invalid.[155] Likewise, a restraint which would prohibit a salesman from soliciting firms which were not customers of his/her employer during his employment will be considered unreasonable.[156]

Common to all these cases, such restrictions were unnecessary to protect any legitimate interest of the employer.[157] Thus, the draftsman shall draft a restriction that will encompass only a specific activity or activities in which there is a realistic possiblity that competition from an ex-employee will be harmful to the employer's legitimate interests.

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[152] Blake, *supra* note 8, at 675-77.

[153] *Id.*

[154] *See, e.g.*, H & R Block, Inc. v. McCaslin, 541 F.2d 1098 (5th Cir. 1976), *cert. denied* 430 U.S. 946 (1977); Dunn v. Frank Miller Assocs., 237 Ga. 266, 227 S.E.2d 243 (1976).

[155] *See, e.g.*, Electronic Data Systs. Corp. v. Kinder, 360 F. Supp. 1044 (N.D. Tex. 1973), *aff'd*, 497 F.2d 222 (5th Cir. 1974).

[156] *See, e.g.*, Gill v. Computer Equip. Corp., 266 Md. 170, 292 A.2d 54 (1972); Bates Chevrolet Corp. v. Haven Chevrolet, Inc., 13 A.D.2d 27, 213 N.Y.S.2d 577 (1961), *aff'd*, 13 N.Y.2d 644 (1963); Molina v. Barany, 56 N.Y.S.2d 124 (Sup. Ct. 1945).

[157] *See* Note, *Validity of Covenants Not to Compete: Common Law Rules and Illinois Law*, 1978 U. ILL. L.F. 249, 259.

iv) *Drafting Suggestions*

In view of the judicial hostility to non-competition agreements, it is not a wise idea for a draftsman to prepare such an agreement without regard to the factual circumstances surrounding it. Once the necessity for the agreement is determined, its restraints as regards territory, duration and activity should be limited to the absolute maximum necessary for the protection of the employer's interests. In this regard, the draftsman who nevertheless prepares an agreement that exceeds the employer's needs should bear in mind one commentator's observation: "It is not a rare rule in the law that he who bites off much more than he should will be judicially choked. The treatment of over-enthusiastic non-competition clauses [is a] . . . common example."[158]

2. Consideration

Generally, competitive restrictions are unenforceable unless they are supported by consideration.[159] Thus, despite the existence of protectible employer interests and restrictions which are reasonably necessary for the protection of such interests and are reasonably limited in geographical extent, duration and activity to be proscribed, a non-competition agreement may nevertheless be rendered unenforceable if there is a lack of consideration.[160] When the employee executes the non-competition agreement at the same time he accepts employment for a fixed term, there is no failure of consideration as the latter becomes the consideration for the agreement.[161] As one court has observed: "It is generally agreed that mutual promises of employer

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[158] Leff, *Unconscionability and the Code—The Emperor's New Clause*, 115 U. PA. L. REV. 485, 514 (1967).

[159] *See* Maid Cook-Ware Corp. v. Hamil, 50 F.2d 830 (5th Cir.), *cert. denied*, 284 U.S. 677 (1931); Shirk v. Loftis Bros. & Co., 148 Ga. 500, 97 S.E. 66 (1918); Walker Coal & Ice Co. v. Westerman, 263 Mass. 235, 160 N.E. 801 (1928); McCall Co. v. Wright, 198 N.Y. 143, 91 N.E. 516 (1910); 1 S. Williston, A TREATISE ON THE LAW OF CONTRACTS § 137A (3d ed. 1957); 54 AM. JUR. 2d *Monopolies* §§ 513, 543 (1971 & Supp. 1980).

[160] *See, e.g.*, John G. Bryant Co. v. Sling Testing & Repair, Inc., 471 Pa. 1, 369 A.2d 1164 (1977); 29 COLUM. L. REV. 347 (1929). As one judge has observed:

> The law in this Commonwealth for more than a century has been that in order to be enforceable covenants in restraint of trade must satisfy three requirements: (1) the covenant must relate to either a contract for the sale of good will or other subject property or to a contract of employment; (2) *the covenant must be supported by adequate consideration;* and (3) the application of the covenant must be reasonably limited to both time and territory.

Maintenance Specialties, Inc. v. Gottus, 455 Pa. 327, 331, 314 A.2d 279, 281-82 (1974) (concurring opinion) (emphasis added).

[161] *See, e.g.*, Wark v. Ervin Press Corp., 48 F.2d 152 (7th Cir. 1931); Tolman Laundry Co. v. Walker, 171 Md. 7, 187 A. 836 (1936); Mutual Milk & Cream Co. v. Heldt, 120 A.D. 795, 105 N.Y.S. 661 (1907); 1 MILGRIM, *supra* note 8, at § 3.05(1)(e) (collecting cases).

and employee furnish valuable considerations each to the other for the contract."[162] The cases indicate, however, that the defense of absence of consideration can arise in the following two situations: when the employee executes the non-competition agreement at the time an at-will relationship commences, and when the employee executes the non-competition agreement after the commencement of the relationship. The draftsman must be familiar with these situations so that his potential defense can be eliminated.[163]

a. At-Will Employment

When there is a promise to employ for an indefinite period, that is, an at-will employment relationship, there has been considerable divergence among the jurisdictions as to whether such employment constitutes sufficient consideration for the non-competition agreement. Several courts have held that a mere promise to employ at will is sufficient consideration.[164] Other courts have held, however, that at-will employment does not constitute sufficient consideration.[165] Still other courts have held that where the employee has in fact worked for the employer for some reasonable duration, the lack of consideration stemming from the promise to employ at will is removed, and the agreement is enforceable.[166]

Instead of relying upon uncertain case law, and to assure that enforcement of a non-competition agreement in the context of at-will employment

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[162] James C. Green Co. v. Kelley, 261 N.C. 166, 168, 134 S.E.2d 166, 167 (1964).

[163] Additionally, the draftsman should be alerted to the split in authority regarding the execution of these agreements under seal. Some courts hold that consideration will be supplied by simply executing the non-competition agreement under seal. *See, e.g.*, Marine Contractors Co. v. Hurley, 365 Mass. 280, 310 N.E.2d 915 (1974). Other courts have held, however, that a seal to such an agreement will not impart consideration. *See, e.g.*, Newman v. Sablosky, 407 A.2d 448 (Pa. Super. Ct. 1979). *See generally* 14 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS § 1636 (3d ed. 1972).

[164] *See, e.g.*, Walker Coal & Ice Co. v. Westerman, 260 Mass. 235, 160 N.E. 801 (1928); Sherman v. Pfefferkorn, 241 Mass. 468, 135 N.E. 568 (1922); Grevely v. Barnard, L.R., 18 Eg. 518 (1874).

[165] *See, e.g.*, Super Maid Cook-Ware Corp. v. Hamil, 50 F.2d 830 (5th Cir. 1931), *cert. denied*, 284 U.S. 677 (1931); Rousana Co. v. Garland, 204 F. Supp. 70 (D.P.R. 1962); 1 MILGRIM, *supra* note 8, at § 3.05(1)(e). These decisions seem to be predicated upon the following rationale:

> A consideration cannot be constituted out of something that is given and taken in the same breath—of an employment which need not last longer than the ink is dry upon the signature of the employee, and where the performance of the promise is under the definite threat of discharge. Unemployment at a future time is disturbing—its immediacy is formidable.

Kadis v. Britt, 224 N.C. 154, 157, 29 S.E.2d 543, 548 (1944).

[166] *See, e.g.*, Wark v. Ervin Press Corp., 48 F.2d 152 (7th Cir. 1931); Granger v. Craven, 159 Minn. 296, 199 N.W. 10 (1924); Bettinger v. North Fort Worth Ice Co., 278 S.W. 466 (Tex. Civ. App. 1925).

will be not be denied on the ground of lack of consideration, the draftsman should include a provision that the employment is terminable only after a specified period of notice has been given, either by the employer or the employee. The courts have consistently held that when the agreement includes a mutual notice clause, adequate consideration is present.[167] The reason is that such a clause makes the employment one for a term, however small, and not at will.[168]

b. After Commencement of Employment

In many instances, an employer will have an employee execute a non-competition agreement after the commencement of the employment relationship. The circumstances surrounding such a situation will vary. Thus, non-competition agreements may be imposed upon an employee who has been already working for the employer because the employee has been promoted to a job where such an agreement is necessary to protect the employer's legitimate interests[169] or because the employer, perhaps after being harmed competitively by ex-employees who have left for a competing firm, has now decided as a matter of corporate policy that all employees should be subject to non-competition agreements.[170] Similarly, the employer may request an employee to sign such an agreement some time after the commencement of employment because the employer only then "got around to completing all the necessary paperwork."[171] Another set of circumstances has been described as follows:

> [A] company may indulge a recruiting program for a new Vice President of R & D. At a Saturday night recruiting party, say in Chicago, he asks about terms and conditions of his new job's employment contract and is told something like: "$35,0000 plus bonuses and a car, plus fringe benefits worth about $7,000 per year; a one-year minimum employment guarantee. How's that for a good offer?"
> Says he, "If that's a deal, I accept." He quits his job, moves his family to a new city, buys a house, shows up at his new employer's office and is presented with an employment contract he never heard about before which severely restricts

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[167] *See, e.g.*, McCall Co. v. Wright, 198 N.Y.143, 91 N.E. 516 (1920); Jennings v. Shepherd Laundries Co., 276 S.W. 726 (Tex. Civ. App. 1925); 1 MILGRIM, *supra* note 8, at § 3.05(1)(e); Bender, *Trade Secret Protection of Software*, 38 GEO. WASH. L. REV. 909, 935 (1970).

[168] *E.g.*, Evans v. Ware [1892] 3 Ch. 502.

[169] *See, e.g.*, Standard Register Co. v. Kerrigan, 238 S.C. 54, 119 S.E.2d 533 (1961).

[170] *See, e.g.*, S. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD? TRADE SECRETS AND THE MOBILE EMPLOYEE 139-40 (1979).

[171] *See, e.g.*, Mixing Equip. Co. v. Philadelphia Gear, Inc., 436 F.2d 1308 (3d Cir. 1971) (3 days after commencement); H.B. Fuller Co. v. Hagen, 363 F. Supp. 1325 (W.D.N.Y. 1973) (1 ½ weeks after commencement); Tasty Box Lunch Co. v. Kennedy, 121 So. 2d 52 (Fla. Dist. Ct. App. 1960) (3 months after commencement). *Cf.* National Starch & Chem. Corp. v. Snyder, 34 Pa. D. & C.2d 533 (1964) (11 years after commencement).

his job-futures.[172]

All of these circumstances have a common legal question: is the non-competition agreement entered into after the employment relationship has been commenced supported by adequate considerations?[173] The judicial opinions discussing this issue are in conflict and not easily reconcilable.[174] Several courts have held that the mere continuation of employment by the employer constitutes sufficient consideration.[175] However, even among these courts there is some question as to the applicability of this rule when the employee is already contractually bound for a period of time prior to the execution of the agreement.[176] Other courts have held that where the employee executes the agreement during the course of his/her employment and receives nothing tangible other than the continuation of employment, insufficient consideration is present.[177]

Although it is arguable that the majority of cases hold that continuation of employment constitutes sufficient consideration in the situation where the non-competition agreement is entered into after the commencement of the relationship, the trend seems to be towards a more pragmatic view of the facts of the case in which the courts have considered the fairness of the imposition of the agreement upon the employee. Because of the conflict in the decisions and the concern for the employee, the draftsman should not rely on any "majority" rule in drafting an agreement in these circumstances. What then, should the draftsman do? First of all, when it is clear that the employer will want its prospective employees to enter into a non-competition agreement, such employees should be fully apprised of the employer's position and should be asked to execute such an agreement at the commencement of the relationship. Secondly, when the employer makes the decision to have some or all of its current employees enter into non-competition agreements, the draftsman should avail himself/herself of the generally accepted rule that a non-competition agreement is "enforceable if supported by new considerations, either in the form of an initial employment contract *or a change in the conditions of employment.*"[178] In other words, "fresh

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[172] Arnold & McGuire, *The Law and Practice of Corporate Information*, 57 J. PAT. OFF. SOC'Y 169, 249 (1975).

[173] *See* Annot., 51 A.L.R.3d 825 (1973 & Supp. 1980).

[174] *Id.* (collecting cases).

[175] *See, e.g.*, Roessler v. Burwell, 119 Conn. 289, 176 A. 126 (1934); Thomas v. Coastal Indus. Servs., Inc., 214 Ga. 832, 108 S.E.2d 328 (1959); Credit Rating Serv. v. Charlesworth, 126 N.J. Eq. 360, 8 A.2d 847 (1939); Annot., 51 A.L.R.3d 825, 835-39 (1973 & Supp. 1980) (collecting cases).

[176] *See* Middlesex Neurological Assocs. v. Cohen, 3 Mass. App. Ct. 126, 324 N.E.2d 911 (1975).

[177] *See, e.g.*, Kadis v. Britt, 224 N.C. 154, 29 S.E.2d 543 (1944); McCombs v. McClelland, 223 Or. 475, 354 P.2d 311 (1960); Annot., 51 A.L.R.3d 825, 833-35 (1973 & Supp. 1980) (collecting cases).

[178] Maintenance Specialties v. Gottus, Inc., 455 Pa. 327, 330, 314 A.2d 279, 281 (1974) (emphasis added).

consideration" should be given to the employee.[179] Such considerations may consist of promotion or enhanced job opportunities,[180] additional salary compensation or fringe benefits,[181] or anything else of benefit to the employee.[182] If this is done, the potential defense of lack of consideration can be eliminated.[183]

B. Statutory

1. State Statutes

In addition to state antitrust statutes which are generally applicable to employee non-competition agreements,[184] several states have legislation specifically governing the legality and enforceability of such agreements.[185] In essence these statutes provide that a contract that prevents a person from practicing a lawful profession, trade or business is void. They are all, however, rife with various exceptions. These statutes should, therefore, be carefully reviewed when they will be applicable to a non-competition agreement to determine their effect upon the enforceability and legality of such agreements.[186]

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[179] *See* Annot., 51 A.L.R.3d 825, 829-33 (1973 & Supp. 1980) (collecting cases).

[180] *See, e.g.,* Forrest Paschal Mach. Co. v. Milholen, 27 N.C. App. 678, 220 S.E.2d 190 (1975); Mail-Well Envelope Co. v. Saley, 262 Or. 143, 497 P.2d 364 (1972).

[181] *See, e.g.,* Technicolor, Inc. v. Traeger, 551 P.2d 163 (Hawaii 1976).

[182] *See, e.g.,* Jacobson & Co. v. International Environment Corp., 427 Pa. 439, 235 A.2d 612 (1967).

[183] 1 MILGRIM, *supra* note 8, at § 3.05(1)(e).

[184] *See, e.g.,* Illinois Antitrust Act, ILL. REV. STAT. ch. 38, §§ 60-1 to -11 (1975); N.Y. GEN. BUS. LAW § 340 (McKinney 1968). Under such statutes, the courts will test non-competition agreements by the common-law standard of reasonableness. *See* Note, *Validity of Covenants Not to Compete: Common Law Rules and Illinois Law,* 1978 U. ILL. L.F. 249, 265. *Cf.* United States v. Addyston Pipe & Steel Co., 85 F. 271 (6th Cir. 1898), *aff'd,* 175 U.S. 211 (1899).

[185] Fourteen states have enacted statutes regulating the use of covenants not to compete. ALA. CODE § 8-1-1 (1975); CAL. BUS. & PROF. CODE §§ 16601-16602 (West 1964); COLO. REV. STAT. § 8-2-113(2) (1973); FLA. STAT. ANN. § 542.12 (West 1972 & Supp. 1980); HAWAII REV. STAT. § 480-4 (1976); LA. REV. STAT. ANN. § 23.921 (West 1964); MICH. COMP. LAWS §§ 445.761, 445.766 (1967); MONT. REV. CODES ANN. §§ 13-807 to -809 (1947); N.C. GEN. STAT. § 75-2 (1975); N.D. CENT. CODE § 9-08-06 (1975); OKLA. STAT. tit. 15, §§ 217-219 (1971); OR. REV. STAT. § 653.295 (1979); S.D. COMP. LAWS ANN. §§ 53-9-8 to -11 (1967); WIS. STAT. ANN. § 103.465 (West 1974).

[186] For a detailed analysis of the Colorado statute *see* Krendl & Krendl, *Noncompetition Covenants in Colorado: A Statutory Solution?,* 52 DEN. L.J. 499 (1975), and of the Oregon statute *see* Comment, *Enforcement of Employee Noncompetition Agreements in Oregon,* 58 OR. L. REV. 336 (1979). For a general discussion of these statutes as they relate to non-competition agreements which are designed to protect trade secrets, *see* 1 MILGRIM, *supra* note 8, at § 3.05(1)(d).

2. Federal Antitrust Statutes

In addition to considering common law and state statutory restrictions upon employee non-competition agreements, the draftsman of such agreements should also consider federal antitrust law, specifically section 1 of the Sherman Act.[187] Although historically non-competition agreements have not been challenged with that section,[188] several recent actions brought to enforce or invalidate such agreements have involved allegations of section 1 violations.[189] Section 1 of the Sherman Act provides in pertinent part that "[e]very contract, combination . . ., or conspiracy, in restraint of trade or commerce among the several States . . ., is declared to be illegal."[190] A threshold question is whether section 1 is applicable to employee-noncompetition agreements. The question must be answered in the affirmative because, as one commentator has observed, "a covenant not to compete is by definition and common law both a contract and a restraint of trade."[191] The issue, therefore, becomes what shall be the standard to determine the legality of the agreement.

The Supreme Court has recognized two distinct standards by which the legality of contracts which are alleged to restrain trade is to be tested, *per se* and rule of reason.[192] The *per se* standard is applied to those practices

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[187] 15 U.S.C. § 1 (1976). This is not to say that other antitrust laws are inapplicable. For example, antitrust issues may arise under section 2 of the Sherman Act, 15 U.S.C. § 2 (1976), which prohibits monopolization and attempts and conspiracies to monopolize, when the dominant firm in a market makes use of a non-competition agreement, albeit reasonable under common law. *See* Schine Chain Theaters, Inc. v. United States, 334 U.S. 110 (1948); United States v. American Tobacco Co., 221 U.S. 106 (1911); United States v. Empire Gas Corp., 537 F.2d 296 (8th Cir. 1976), *cert. denied*, 429 U.S. 1122 (1977); San Indus., Inc. v. Monogram Indus., Inc., [1976-1] Trade Reg. Rep. (CCH) ¶ 60,816 (C.D. Cal. 1976); Lektro-Vend Corp. v. Vendo Co., 403 F. Supp. 527 (N.D. Ill. 1975), *aff'd on other grounds*, 545 F.2d 1050 (7th Cir. 1976), *rev'd on other grounds*, 433 U.S. 623 (1977). Additionally, non-competition agreements could be challenged under section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45 (1976), as an "unfair method of competition." *See* Sullivan, *Revisiting the "Neglected Stepchild": Antitrust Treatment of Postemployment Restraints of Trade*, 1977 U. ILL. L.F. 621, 623.

[188] Blake, *supra* note 8, at 628 n.8.

[189] *See, e.g.*, Alders v. AFA Corp., 353 F. Supp. 654 (S.D. Fla. 1973), *aff'd*, 490 F.2d 990 (5th Cir. 1974); Miller v. Kimberly-Clark Corp., 339 F. Supp. 1296 (E.D. Wis. 1971). *See, e.g.*, Bradford v. New York Times Co., 501 F.2d 51 (2d Cir. 1974); Lektro-Vend Corp. v. Vendo Co., 403 F. Supp. 527 (N.D. Ill. 1975), *aff'd on other grounds*, 545 F.2d 1050 (7th Cir. 1976), *rev'd on other grounds*, 433 U.S. 623 (1977). Additionally, several consent decrees have limited an employer's use of non-competition agreements. *See, e.g.*, United States v. National Liner Serv. Corp., [1956] TRADE REG. REP. (CCH) ¶ 68,393 (N.D. Ga.).

From a private plaintiff's point of view, this trend can probably be attributed to the remedy of treble damages and attorney's fees available under the antitrust laws, see 15 U.S.C. § 15 (1976), and the procedural advantages of the federal forum over the state.

[190] 15 U.S.C. § 1 (1976).

[191] Sullivan, *Revisiting the "Nelgected Stepchild": Antitrust Treatment of Postemployment Restraints of Trade*, 1977 U. ILL. L.F. 621, 626. *Accord*, Golden v. Kentile Floors, Inc., 512 F.2d 838 (5th Cir. 1975); Bradford v. New York Times Co., 501 F.2d 51 (2d Cir. 1974).

[192] *See generally* Redlich, *The Burger Court and the Per Se Rule*, 44 ALB. L. REV. 1 (1979).

which are considered so blatantly at odds with the Sherman Act's policy of furthering competition that they are considered *per se* unreasonable and therefore "illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use."[193] Included on this roll of condemned practices are horizontal price fixing,[194] group boycotts,[195] market divisions,[196] and tying arrangements.[197] The validity of all other practices is determined under the rule of reason which requires a complete and thorough examination of the nature and effects of the restraint and of the reasons for its existence.[198] Mr. Justice Brandeis, in the classic interpretation of the rule of reason, elaborated upon the appropriate scope of inquiry in *Chicago Board of Trade v. United States*,[199] observing:

> [T]he legality of an agreement or regulation cannot be determined by so simple a test, as whether it restrains competition. Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained are all relevant facts. This is not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences.[200]

It is to be observed that the *per se* rule is, of course, the antithesis of the rule of reason.

With respect to employee non-competition agreements, no court has held that they constitute *per se* violations of section 1.[201] Rather, they have held that they are to be subject to a rule of reason analysis.[202] In using this analysis the courts have drawn heavily on the common-law reasonableness cases. Indeed, the approach taken seems to be, for example, that non-competition agreements valid under the common law will be valid under section 1 with-

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[193] Northern Pac. Ry. v. United States, 356 U.S. 1, 5 (1958).

[194] *See, e.g.*, United States v. Socony-Vacuum Oil Co., 310 U.S. 150 (1940).

[195] *See, e.g.*, Klor's Inc. v. Broadway-Hale Stores, Inc., 359 U.S. 207 (1959).

[196] *See, e.g.*, United States v. Topco Assocs., 405 U.S. 596 (1972).

[197] *See, e.g.*, International Salt Co. v. United States, 332 U.S. 392 (1947).

[198] *See, e.g.*, United States v. Citizens & S. Nat'l Bank, 422 U.S. 86 (1975); United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967).

[199] 246 U.S. 231 (1918).

[200] *Id.* at 238.

[201] *See* Bradford v. New York Times Co., 501 F.2d 51 (2d Cir. 1974); Frackowiak v. Farmers Ins. Co., 411 F. Supp. 1304 (D. Kan. 1976).

[202] *See, e.g.*, Brovnah v. Bassett Furniture Indus., Inc., 552 F.2d 90 (3d Cir.), *cert. denied*, 434 U.S. 823 (1977); Alders v. AFA Corp., 353 F. Supp. 654 (S.D. Fla. 1973), *aff'd*, 490 F.2d 990 (5th Cir. 1974).

out any separate antitrust inquiry into reasonableness.[203]

Nevertheless, the draftsman should never assume that there will be an absence of a separate, cognizable antitrust issue. Recently, commentators have vigorously urged that non-competition agreements be subject to a more careful antitrust scrutiny under section 1. For example, Professor Goldschmid has argued, upon the basis that state courts have been too charitable towards non-competition agreements, that the federal courts should apply section 1 in order to invalidate agreements that are deemed reasonable under state law,[204] and Professor Sullivan has called for a greatly expanded judicial inquiry under section 1.[205] Both commentators acknowledge that their proposals would require a major reorientation of current legal analysis to such agreements. In view of this commentary and the well-known abrupt changes in antitrust law,[206] the draftsman should always test a non-competition agreement under the then prevailing approach of the cases interpreting section 1 as it applies to non-competition agreements.

III. Optimizing the Employer's Objective of Preventing Harm from His/Her Employees: Additional Clauses

A. *Choice of Law Clause*

It is a valid possibility that an employee non-competition agreement which is enforceable in one state may nevertheless be ruled void in another state and in still a third state be modified to be reasonable and then enforced.[207] Thus, the law which governs the agreement's validity and enforceability is crucial.[208] Accordingly, the draftsman should include in the agreement a clause specifying which state's law is to govern the agreement.[209]

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[203] *See* Sullivan, *Revisiting the "Neglected Stepchild": Antitrust Treatment of Postemployment Restraints of Trade*, 1977 U. Ill. L.F. 621, 625-35.

[204] Goldschmid, *Antitrust's Neglected Stepchild: A Proposal for Dealing With Restrictive Covenants Under Federal Law*, 73 Colum. L. Rev. 1193 (1973).

[205] Sullivan, *Revisiting the "Neglected Stepchild": Antitrust Treatment of Postemployment Restraints of Trade*, 1977 U. Ill. L.F. 621.

[206] *Compare* Continental T.V. Inc. v. GTE Sylvania Inc., 433 U.S. 36 (1977) *with* United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967). *Compare* United States v. General Dynamics Corp., 415 U.S. 486 (1974) *with* United States v. Philadelphia Nat'l Bank, 374 U.S. 321 (1963).

[207] *See* J. Thomas McCarthy, Trademarks and Unfair Competition § 29:26 (1973). This situation would arise because the parties to the agreement live and/or work in different jurisdictions, or move to another jurisdiction.

[208] *See* 1 Milgrim, *supra* note 8, at 1979 Cum. Supp. 3-31, citing examples. As another example, whether an arbitration clause will be upheld will turn upon whose law is to apply. See text accompanying notes 235-50 *infra*.

[209] In the absence of such a clause, the court which is asked to enforce the agreement will apply the law dictated by the forum court's conflicts of law rules. See, *e.g.*, Award Incentives, Inc. v. Van Rooyen, 263 F.2d 173 (3d Cir. 1959); Koehler v. Cummings, 380 F. Supp. 1294

Traditionally, where parties have manifested their intent to have an agreement governed by the law of a particular state, their intent has been honored.[210] In this respect, the general rules concerning the law governing a contract are subordinate to the primary canon of construction requiring that the intentions of the parties be given effect.[211] The state whose law the parties intend to apply must, however, bear a reasonable relation to the agreement.[212] Thus, the state whose law is chosen should be either the place of negotiation, execution or performance.[213]

Recently, some courts have refused to enforce a non-competition agreement even though valid under the law of the state stipulated to be applicable because the agreement was deemed to be contrary to the public policy of the forum state.[214] These holdings, it is to be noted, are at variance with the *Restatement*[215] and have been strongly criticized.[216] As one commentator has observed:

> It is inconsistent to permit an employee to retain all the benefits of an employment commenced and largely conducted in one jurisdiction, and then to deny the employer the right to enforce restrictive covenants valid in that jurisdiction but not valid in the jurisdiction to which the employee may move. Indeed, to so apply public policy would make havens of states having anticovenant statutes for employees from other jurisdictions whose competitive activities might inevitably jeopardize their former employer's trade secrets.[217]

Such authority and criticism may lead courts in the future not to invalidate non-competition agreements upon the ground that they violate the forum state's public policy.[218]

B. Termination Clause

The non-competition agreement should provide that its provisions will ap-

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(M.D. Tenn. 1974); Travesol Laboratories, Inc. v. Turner, 30 N.C. App. 686, 228 S.E.2d 478 (1976); Annot., 70 A.L.R.2d 1292 (1960).

[210] *See, e.g.*, Buono Sales, Inc. v. Chrysler Motors Corp., 363 F.2d 43 (3d Cir. 1966), *cert. denied*, 385 U.S. 971 (1966); Freedman v. Chem. Constr. Corp., 43 N.Y.2d 260, 372 N.E.2d 12; 401 N.Y.S.2d 176 (1977); RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 187 (1971).

[211] 8 N.Y. JUR., *Conflict of Laws* § 20.

[212] A.S. Rampell, Inc. v. Hyster Co., 3 N.Y.2d 369, 144 N.E.2d 371, 165 N.Y.S.2d 475 (1957); RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 187, Comment f (1971).

[213] 1 MILGRIM, *supra* note 8, at § 3.02(1)(9).

[214] *See, e.g.*, Koehler v. Cummings, 380 F. Supp. 1294 (M.D. Tenn.); Frame v. Merrill Lynch, Pierce, Fenner & Smith Inc., 20 Cal. App. 3d 668, 97 Cal. Rptr. 811 (1971); Davis v. Ebsco Indus., Inc., 150 So. 2d 460 (Fla. Dist. Ct. App. 1963).

[215] *See* RESTATEMENT (SECOND) OF CONFLICT OF LAWS §§ 186-88 (1971).

[216] 1 MILGRIM, *supra* note 8, at § 3.02(1)(9); Epstein, *The Interaction of State Public Policy on the Enforceability of Post-Employment Restrictive Covenants* in 2 MILGRIM, *supra* note 8, at Appendix D-2.

[217] 1 MILGRIM, *supra* note 8, at § 3.02(1)(9).

[218] *Cf.* Wilkinson v. Manpower, Inc., 531 F.2d 712 (5th Cir. 1976).

ply after termination of employment "for any reason." This language will prevent the situation that was present in *Leo Silfen Inc. v. Cream*[219] from occurring. In *Silfen*, the employee had executed a non-competition agreement, but it applied only if the employee terminated the relationship. Subsequently, the employer discharged the employee. The employee then opened a competing business. The New York Court of Appeals held that the employee could not be enjoined pursuant to the agreement, because under the termination clause the agreement was not applicable if the termination was the result of the employer's conduct.

It is to be noted that such a provision will not benefit the employer when it terminates the employee in an unfair manner. Thus, in a leading case, *Economy Grocery Stores Corp. v. McMenamy*,[220] the Supreme Judicial Court of Massachusetts, after noting that the employee was fired without cause and in circumstances involving some humiliation to him, refused to enforce a non-competition agreement that appeared reasonable. The court held that "specific performance . . . will not be granted if the conduct of the plaintiff [employer] is savored with injustice."[221] The teaching of *Economy Grocery* is clear. An employer should exercise caution in terminating employment which is subject to a non-competition agreement in order to avoid a charge that he/she is acting in bad faith.[222] Otherwise, all the effort put into drafting an enforceable agreement will be for naught.

C. *Exit Interview and Successive Employment Notice Clause*

Regardless of the legal validity of a non-competition agreement it is of no value to an employer who is not aware that the employee is in fact violating its terms. A solution to this problem is for the draftsman to include in the agreement a clause providing for an "exit interview" process and requiring from the employee advance notice informing the employer for whom the employee will work and in what capacity.

With respect to the "exit interview" process, the clause should specify that prior to termination of the employment, the employee must meet with the employer. Such a meeting will provide the employer with an opportunity to review with the employee the terms of the non-competition agreement and the employee's obligations under it, along with a reminder that the employer is prepared to enforce the agreement and that the employee cannot remove from the employer's premises, and must return, any confidential matter to which he/she has access. This "exit interview" can be beneficial to the employer in two ways. First, it may dissuade the employee from ever

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[219] 29 N.Y.2d 387, 278 N.E.2d 636, 328 N.Y.S.2d 423 (1972).

[220] 290 Mass. 549, 195 N.E.2d 747 (1935).

[221] 290 Mass. at 552, 195 N.E.2d at 748.

[222] Termination without cause, provided bad faith is absent, would not, however, preclude enforcement. See All Stainless, Inc. v. Colby, 364 Mass. 773, 308 N.E.2d 481 (1974).

attempting to engage in activities that would necessitate a violation of the agreement.[223] Secondly, it may alert the employer that the employee is about to engage in competitive activities, and thus that close monitoring of his/her subsequent activities is warranted.[224]

The purpose of the clause requiring advance notice informing the employer for whom the employee will work and in what capacity is twofold. First, the employer will know where the employee will be working and such knowledge can help in determining whether the agreement will be violated or in determining that monitoring is warranted. Secondly, if the employer can ascertain from this information that the employee will break the agreement, the employer is in a position of informing the new employer of this and thus alerting this employer to the possibility of an interference with contractual relations lawsuit. The threat of such a suit may deter the hiring of the employee.

D. Computation of Time Limitation Clause

In several recent cases,[225] the courts have been confronted with a situation wherein there has been a determination that the time limitation of a non-competition agreement is reasonable but the restraint by its own terms has expired. *A-Copy, Inc. v. Michaelson*[226] is illustrative. Michaelson had executed in December, 1975 a non-competition agreement in which he agreed not to engage in the sale or servicing of copy equipment "[f]or a period of one (1) year following the termination of employment" in a specified geographical area. On February 17, 1977, he was discharged. Immediately thereafter Michaelson engaged in activities contrary to the terms of the agreement. One week later, upon discovery of his competitive activities, plaintiff brought an action to enjoin the breach of the agreement. Two months later, the court held a hearing limited to the question of preliminary relief. One year later, the district court issued a preliminary injunction enjoining *inter alia,* Michaelson from engaging in copying machine sales and service in the area of his former employment. It is to be noted that while the case was under advisement Michaelson continued his competitive activities. On appeal, the First Circuit Court of Appeals reversed that portion of the injunction that enjoined Michaelson's competitive activities. The court noted that under the plain terms of the agreement Michaelson was merely not to engage in the sales or servicing of copy equipment for a period of one year following termination of employment. Pursuant to this language, the one year covenant expired on February 16, 1978 and thus it could not be specifi-

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[223] *See* S. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD? TRADE SECRETS AND THE MOBILE EMPLOYEE 117-18 (1979).

[224] *See* Arnold & Maguire, *The Law and Practice of Corporate Information Security,* 57 J. PAT. OFF. SOC'Y 169, 174 (1975).

[225] *See* cases cited in note 228 *infra.*

[226] 599 F.2d 450 (1st Cir. 1978).

cally enforced.[227]

The decision in *A-Copy* is consistent with the result reached by other courts. In this regard it is uniformly held that when the contractual period of restraint has expired, though an action to enforce the agreement was brought as soon as the acts violating the agreement were started and such action was still pending at the time of expiration, specific relief is inappropriate.[228] Thus, as one commentator has observed, "if a lower court refused to enforce a covenant limited in time and the time limit expired before the case was reversed by a Court of Appeal, the Court of Appeal may decide on the merits for the employer, but refuse to resurrect the expired covenant."[229] In these circumstances, the courts have refused to hold that the time period should be deemed to have been superseded during the period that the ex-employee has violated the restriction or that a restrictive covenant can be enforced prospectively from the date of the first court decision.[230]

To be sure, the employer still has his/her damage remedy. However, his/her business may be being irreparably damaged by the ex-employee's activities and the possibility of damages in the future is not a satisfactory answer to the employer's current plight.[231]

To prevent this situation from occurring the draftsman should include in the agreement a clause which provides that the time limitation of the competitive restraint shall be the specified duration, computed from the date the relief is granted but reduced by the time between the period when the restriction began to run, *i.e.* termination of employment, and the date of the first violation of the covenant by the employee. Such a clause will not only prevent the harm that can arise from application of the rule recognized in *A-Copy*, but will also give the employer the benefit of the full period of the agreement.

E. Compensation Clause

Some courts, in determining whether a non-competition agreement is reasonable, have interjected the factor of personal hardship that would be suffered by the employee if the agreement were to be enforced.[232] To preclude

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[227] *Id.* at 452-53. The court noted that plaintiff would thus be left to its damages remedy. *Id.*

[228] *See, e.g.*, Meeker v. Stuart, 188 F. Supp. 272 (D.D.C. 1960), *aff'd*, 289 F.2d 902 (D.C. Cir. 1961); De Long Corp. v. Lucas, 176 F. Supp. 104 (S.D.N.Y. 1959), *aff'd*, 278 F.2d 804 (2d Cir. 1960); All Stainless, Inc. v. Colby, 364 Mass. 773, 308 N.E.2d 481 (1974); Hayes v. Altman, 438 Pa. 451, 266 A.2d 269 (1970); Abalene Pest Control Serv. Inc., v. Hall, 126 Vt. 1, 220 A.2d 717 (1966). *See also* Goldberg v. Goldberg, 205 A.D. 435, 200 N.Y.S. 3 (1923).

[229] J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 29:23 (1973).

[230] *See, e.g.*, A-Copy, Inc. v. Michaelson, 599 F.2d 450, 452 (1st Cir. 1978). *But see* J.H. Goldberg Co., Inc. v. Stern, 53 A.D.2d 246, 385 N.Y.S.2d 427 (1976).

[231] Blake, *supra* note 8, at 691; 9 DUQ. L. REV. 304, 306 (1970). *Cf.* Wilkinson v. Colley, 164 Pa. 35, 30 A. 286 (1894).

[232] *See, e.g.*, Standard Register Co. v. Kerrigan, 119 S.E.2d 533, 238 S.C. 54 (1961); Annot., 43 A.L.R.2d 94, 212-13, 221-26 (1955).

this and to provide affirmatively another indicia of reasonableness, the draftsman may want to include a clause which provides that if an employee is unable to find suitable employment after a conscientious effort to do so, the employer will make predetermined payments of money based upon his former salary.[233] To be sure, the cost of such a clause may be high but it will be a relatively cheap bargain if a court relying on this clause determines the non-competition agreement to be reasonable and enforces it.[234]

F. Arbitration Clause

In the past, agreements to submit to arbitration disputes arising out of contracts were generally condemned upon the ground that they tended to oust the courts of their jurisdiction.[235] Now, they are favorably recognized an an efficacious procedure whereby the parties can select their own nonjudicial forum for the "private and practical" resolution of their disputes with maximum dispatch and at minimum expense.[236] Not all disputes are, however, arbitrable. Rather, it has been held that there are certain cases in which public policy considerations will prohibit certain matters being decided or certain relief being granted by an arbitrator.[237]

The question then arises whether the issue of the enforceability of a non-competition agreement is arbitrable. Recently, the New York Court of Appeals in *In re Sprinzen*[238] answered in the affirmative. In reaching this conclusion, Judge Jasen, writing for an unanimous court observed:

> Here, the parties, by reason of a broad arbitration clause contained in their signed agreement, submitted the issue of the enforceability of the restrictive covenant to arbitration, clearly a proper forum for the resolution of their dispute in this private matter. By so doing, the parties placed upon the arbitrator, not the courts, the responsibility of passing upon the merits of their controversy with the expectation that a just, yet practical, result would be reached.[239]

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[233] For an example of such a clause *see* 2 MILGRIM, *supra* note 8, at Appendix C, Form C.

[234] *Cf.* Emery Indus., Inc. v. Collier, 202 U.S.P.Q. (BNA) 829 (S.D. Ohio 1978) (court enjoined the employee from taking new job, but ordered the employer to pay the employee $330 per month).

[235] *See, e.g.,* Meacham v. Jamestown, F. & C.R.R., 211 N.Y. 346, 105 N.E. 653 (1914).

[236] *In re* Siegel [Lewis], 40 N.Y.2d 687, 689, 389 N.Y.S.2d 800, 358 N.E.2d 484, *motion for reargument denied,* 41 N.Y.2d 901, 362 N.E.2d 640, 393 N.Y.S.2d 1028 (1977). *See generally* D. SIEGEL, NEW YORK PRACTICE § 586 (1978). *Cf.* John Wiley & Sons v. Livingston, 376 U.S. 543, 549 (1964).

[237] *See, e.g.,* Wilks v. Swan, 346 U.S. 427 (1953) (claim under Securities Act of 1933); Koven & Brother v. Local Union No. 5767, United Steel-Workers, 381 F.2d 196 (3d Cir. 1965) (scope of discharge in bankruptcy); American Safety Equip. Corp. v. Maguire Co., 391 F.2d 821 (2d Cir. 1968) (federal antitrust claim); Aimcee Wholesale Corp. v. Thomar Prods., Inc., 21 N.Y.2d 621, 237 N.E.2d 223, 289 N.Y.S.2d 968 (1968) (state antitrust claim); Agur v. Agur, 32 A.D.2d 16, 298 N.Y.S.2d 772 (1969) (custody of children).

[238] 46 N.Y.2d 623, 389 N.E.2d 456, 415 N.Y.S.2d 974 (1979).

[239] *Id.* at 632, 389 N.E.2d at 460, 415 N.Y.S.2d at 978.

On the other hand, the courts in California are of the view that arbitration is not permitted to enforce non-competition agreements.[240]

If under the applicable substantive law an arbitrator has the power to compel compliance with the terms of the non-competition agreement,[241] the inclusion of an arbitration clause is a worthwhile consideration for the draftsman for, as one commentator has observed, the use of such a clause is "one of the greatest tactical advantages offered . . . in the use of trade secret protection."[242] This conclusion follows for several reasons. First, since an arbitrator is not bound to abide by principles of substantive law,[243] the arbitrator may enforce a non-competition agreement that a court would not have enforced, had the enforceability of the agreement been adjudicated in the courts.[244] Secondly, arbitration offers many procedural advantages, such as: arbitrators are not bound by courtroom rules of evidence;[245] arbitration proceedings can be held outside of the public eye,[246] and there is no opportunity for appeal on the merits.[247] Furthermore, the arbitrator can be required to have certain requisite qualifications and a general technical background or background in the industry in which the agreement is being used.[248]

One caveat about the use of an arbitration clause must, however, be mentioned. The law is unclear whether a court can grant preliminary relief to enjoin a violation of the agreement when the agreement provides for arbitration.[249] Thus, the employer must consider the possibility that the employee

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[240] Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Ware, 24 Cal. App. 3d 35, 100 Cal. Rptr. 791, *aff'd*, 414 U.S. 117 (1973).

[241] At the time of the preparation of this Article only courts in New York and California have ruled on this issue. Recognizing that predictions as to how other courts would rule can often prove wrong, it may be that such clauses will be enforced in those states that do not have statutes declaring certain types of restrictive covenants void per se. In this regard, it is to be noted that California has such a statute, CAL. BUS. & PROF. CODE § 16600 (Deering 1976), and the New York Court of Appeals in *Sprinzen* noted that in New York, "public policy considerations do not absolutely preclude the enforcement of restrictive covenants." *In re* Sprinzen, 46 N.Y.2d 623, 632, 389 N.E.2d 456, 460, 415 N.Y.S.2d 974, 978 (1979).

[242] 1 MILGRIM, *supra* note 8, at § 3.02(1)(f).

[243] *See, e.g.*, Rochester City Sch. Dist. v. Rochester Teachers Assoc., 41 N.Y.2d 578, 362 N.E.2d 977, 394 N.Y.S.2d 179 (1977); Associated Teachers of Huntington v. Board of Educ., 33 N.Y.2d 229, 306 N.E.2d 791, 351 N.Y.S.2d 670 (1973).

[244] 1 MILGRIM, *supra* note 8, at § 3.02(1)(f); Bender, *Trade Secret Protection of Software*, 38 GEO. WASH. L. REV. 909, 933 (1970). In this regard, the decision in *In re* Sprinzen, 46 N.Y.2d 623, 389 N.E.2d 456, 415 N.Y.S.2d 974 (1979), is significant. Here the arbitrator enforced a non-competition agreement which prohibited the employee from working for five years in a geographical territory where he had not worked previously. A court would probably not have enforced this provision, *see* Purchasing Assocs. v. Weitz, 13 N.Y.2d 267, 196 N.E.2d 245, 246 N.Y.S.2d 600 (1963), a point to which the *Sprinzen* court alluded.

[245] 1 MILGRIM, *supra* note 8, at § 3.02(1)(f).

[246] *Id.*

[247] *Id.*

[248] *Id.*

[249] *See* S. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD? TRADE SECRETS AND THE MOBILE EMPLOYEE 187 (1979); 1 MILGRIM, *supra* note 8, at § 3.02(1)(f). *But see* New England Petroelum

will compete against it prior to and during the arbitration procedure, and that judicial relief may be unavailable. While there is the possibility of preventing this situation from occurring by adroit draftsmanship, namely a clause providing for the right to obtain equitable relief from a court apart from the arbitration proceeding, or a clause which specifies that the initiation of an arbitration proceeding will have the effect of a court injunction and that pending the outcome of the proceeding the parties shall maintain the status quo,[250] the draftsman should be alerted that no authority for the proposition that such clauses are valid can be cited.

G. *Severability Clause*

Quite expectedly, not all non-competition agreements will be deemed reasonable by a court. What then does the court do when it determines that one or more of the limitations is unreasonable? Even when a non-competition agreement is so broad that it is determined to be unreasonable, some courts, exercising their equitable power, will nevertheless enforce the agreement to the extent that it will be deemed reasonable.[251] In those jurisdictions which permit such modification, two views have prevailed. Under the "blue pencil" view, the judicial power to modify turns entirely on whether the terms of the restraints are grammatically divisible.[252] In other words, if the agreement is so worded that the unreasonable terms can be crossed out

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Corp. v. Asiatic Petroleum Corp., 82 Misc. 2d 561, 368 N.Y.S.2d 930 (Sup. Ct. 1975); E.F. Hutton & Co. v. Bokelman, 56 Misc. 2d 910, 290 N.Y.S.2d 415 (Sup. Ct. 1968), *criticized in* D. SIEGEL, NEW YORK PRACTICE § 599 (1978).

[250] *See* S. LIEBERSTEIN, WHO OWNS WHAT IS IN YOUR HEAD? TRADE SECRETS AND THE MOBILE EMPLOYEE 187 (1979).

[251] *See generally* Comment, *Partial Enforcement of Postemployment Restrictive Covenants*, 5 CALIF. J. OF L. AND SOC. PROBS. 181 (1979); Comment, *Contracts—Partial Enforcement of Restrictive Covenants*, 50 N.C. L. REV. 689 (1972); 45 WASH. L. REV. 210 (1970); Annot., 61 A.L.R.3d 397 (1975 & Supp. 1980).

Other courts, however will deny enforcement of the entire agreement if any part of it is found unreasonable. *See, e.g.*, Lasser v. Benton, 86 Ariz. 323, 346 P.2d 137 (1959), *modified*, 87 Ariz. 72, 347 P.2d 1012 (1959); Rector-Phillips-Morse, Inc. v. Vroman, 253 Ark. 750, 489 S.W.2d 1 (1973); Welcome Wagon Int'l, Inc. v. Hostesses, Inc., 199 Neb. 27, 255 N.W.2d 865 (1977); Eastern Bus. Forms, Inc. v. Kirtler, 258 S.C. 429, 189 S.E.2d 22 (1972). Courts have justified this void per se rule upon two separate grounds. First, it is agreed that to partially enforce a non-competition agreement would constitute a judicial rewriting of the parties' contract, which the courts may not do. "[C]ourts have no authority to vary the terms of a written agreement, for to do so would simply be to make a new contract between the parties. We have repeatedly held that this will not be done." Brown v. Devine, 240 Ark. 838, 842, 402 S.W.2d 669, 672 (1966). The rule is also justified upon the ground that to allow partial enforcement would encourage employers to draft only broad agreements, secure in the knowledge that the courts will pare them down. This will have an *in terrorem* effect upon employees, especially those who cannot afford litigation. See Reading Aviation Serv., Inc. v. Bertolet, 454 Pa. 488, 311 A.2d 628 (1973).

[252] *See, e.g.*, Timenterial, Inc. v. Dagata, 29 Conn. Super. 180, 277 A.2d 512 (1971); Welcome Wagon Int'l, Inc. v. Pender, 255 N.C. 244, 120 S.E.2d 739 (1961); Annot., 61 A.L.R.3d 397, 410-14 (1975 & Supp. 1980) (collecting cases).

and the remaining terms are sufficient to constitute a reasonable restraint, the court will enforce the agreement as modified. For example, if a court found unreasonable a limitation that prohibited competition "within New York," the blue pencil test could not be applied because crossing out "within New York" would leave no territory designated in which the agreement could be enforced. But if the limitation prohibited competition "in Albany, Buffalo, Rochester and Syracuse," and a court were of the opinion that a limitation limited to Albany would be reasonable, the other named areas could be deleted. The second view advocates a doctrine of partial enforcement which would enforce a non-competition agreement to the extent it was reasonable regardless of its grammatical structure.[253] Under this test, the attention of a court shifts to the circumstances surrounding the agreement. If the court decides to modify the agreement, the extent of its modification will be governed by the same criteria it utilized in its initial consideration of the agreement.[254]

Of what significance to the draftsman of a non-competition agreement is this conflict among authorities? Several points must be noted. First, if the applicable law includes decisions which recognize the "blue pencil" test, good draftsmanship would dictate that the restraints be drafted with an eye towards their severability. Thus, instead of preventing the employee from competing in "New England," the agreement should specify the six New England states separately.[255] Similarly, a time limitation should be expressed as—for example, a three year period—for "one year, or two years or three years," or alternatively, "in 1980, 1981 or 1982,"[256] and an activity limitation would be written as, for example, "dentistry and/or oral surgery."[257] Secondly, if the applicable law prohibits any modification, the draftsman should not rely upon a clause in the agreement which grants a court the right to partially enforce the agreement, because the cases seem uniform in holding that such a clause will not be recognized upon the ground that it is an improper attempt to delegate to the court the power to make a new contract.[258] Lastly, if the applicable law permits partial enforcement, the drafts-

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[253] *See, e.g.*, Novelty Bias Binding Co. v. Shevrin, 342 Mass. 714, 175 N.E.2d 374 (1961); R.E. Harrington, Inc. v. Frick, 428 S.W.2d 945 (Mo. App. 1968); Solar Indus., Inc. v. Malady, 55 N.J. 571, 264 A.2d 53 (1970); Karpinski v. Ingrasci, 28 N.Y.2d 45, 268 N.E.2d 751, 320 N.Y.S.2d 8 (1971); Raimonde v. Van Vlerah, 42 Ohio St. 2d 21, 325 N.E.2d 544 (1975); Wood v. May, 73 Wash. 2d 307, 438 P.2d 587 (1968). It is to be noted that the two most eminent contracts commentators have approved this approach. *See* 6A A. CORBIN, CONTRACTS § 1394 (1962); 14 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS § 1647B (3d ed. 1973). Additionally, this approach has been adopted by the RESTATEMENT (SECOND) OF CONTRACTS § 326 (Tent. Draft No. 12, 1977). In this regard the reporter noted that the weight of authority has now rejected the "blue pencil" test in favor of this theory of partial enforcement. *Id.*

[254] *See, e.g.*, Solari Indus., Inc. v. Malady, 55 N.J. 571, 264 A.2d 53 (1970).

[255] *See* Welcome Wagon Int'l, Inc. v. Pender, 255 N.C. 244, 120 S.E.2d 739 (1961).

[256] *See* Comment, *Partial Enforcement of Post-Employment Restrictive Covenants*, 15 CALIF. J. of L. & SOC. PROBS., 181, 208 (1979).

[257] *See* Karpinski v. Ingrasci, 28 N.Y.2d 45, 268 N.E.2d 751, 320 N.Y.S.2d 1 (1971).

[258] *See* Rector-Phillips-Morse, Inc. v. Vroman, 253 Ark. 750, 489 S.W.2d 1 (1973); Purcell v.

man should not draft as broad an agreement as conceivably possible, regardless of the facts and circumstances surrounding the agreement, in the hopes that the limitations will be subsequently modified to the extent that reasonableness demands, because many courts in such a situation will deny even partial enforcement.[259]

IV. Conclusion

Before drafting a non-competition agreement to protect a firm's confidential business information, the draftsman should become fully knowledgeable about the employer's business and the employee's position and relationship to that business. To this end, he/she should thoroughly discuss with the employer the business interests which the employer is entitled to protect, ascertain whether the employer in fact has a protectible interest, discover the possible harm the employee could bring to that interest, explain the legal limits of the protection that can be afforded that interest, and determine the extent of contractual provisions that the employer can "live with." Having done this, the draftsman can draft the competitive restrictions concerning geography, time and activity to the maximum necessary to protect the employer's legitimate interest. Additionally, the draftsman will then be in a position to avoid future lack of consideration problems, and include in the agreement certain clauses which can optimize the employer's ultimate objective of preventing harm from its ex-employee.

To be sure, the drafting of an enforceable non-competition agreement can be a task which is fraught with uncertainty. Neverthelesss, numerous cases have been reported wherein such agreements have been upheld and employees held to their terms. The key to all these decisions is reasonableness, and a draftsman who follows the suggestions made in this Article should have little trouble in convincing a court that the agreement he/she drafted was in fact reasonable.

Joyner, 231 Ga. 85, 200 S.E.2d 363 (1973).

[259] *See* Comment, *Partial Enforcement of Post-Employment Restrictive Covenants*, 15 Calif. J. of L. & Soc. Probs., 181, 220-22 (1979). Indeed, some courts have also expressly warned against over-covenanting. *See, e.g.*, Howard Schultz & Assocs. v. Bronier, 239 Ga. 181, 236 S.E.2d 265 (1977).