NON-COMPETE AGREEMENTS: EMERGING ISSUES FROM THE PERSPECTIVE OF EMPLOYEE'S COUNSEL

By:
Wayne N. Outten
Anne Golden
Nantiya Ruan
Outten & Golden LLP[1]
1740 Broadway
New York, New York 10019
212-245-1000
212-977-4005 fax
wno@outtengolden.com <mailto:wno@outtengolden.com>
www.outtengolden.com <http://www.outtengolden.com/>

February 2001

I. OVERVIEW

Today more than ever, trained employees are valued by employers who want to do everything in their power to keep them from leaving and taking their skills and knowledge with them. Undoubtedly, this is due in part to our nation's unemployment rate reaching a thirty-year low. Add the current business environment of increased mobility, decreased loyalty, and the tremendous amount of capital resources spent in creating intellectual property, and companies are increasingly requiring key employees to sign harsh non-compete agreements to discourage employee defection or "corporate raiding."

The law still favors free mobility of employees. But along with an increased number of employers requiring employees to sign non-competition agreements comes an increased number of suits to enforce these restrictive covenants. Consequently, the body of law governing this area has been changing. This outline will give practical advice to employee advocates on ways to best protect their clients' interests when confronted with non-competition agreements and will examine the emerging trends in this narrow, but increasingly pertinent, area of employment law.

II. TYPES OF RESTRICTIVE COVENANTS

A. Non-Competition

This broad category of agreements prohibits the employee from working

[1] Outten & Golden LLP is now located at 3 Park Avenue, 29th Floor, New York, New York 10016.

for a competing company. In order to be enforceable, this restriction must be for a specified period of time and within certain geographical and/or business parameters. An employer might ask a potential employee to sign a non-competition agreement as a condition of hire. A current employee might be required to sign one as a condition of continued employment. When an employee has not already signed such an agreement, an employer might include in the employee's severance agreement a covenant not to compete for a period of time post-employment. Because these covenants present obvious limitations on an employee's ability to earn a living after leaving the employer, an advocate must be knowledgeable about the ways to limit these restrictions and protect the employee.

B. Non-Solicitation of Customers and/or Employees

Companies have an interest in protecting their customer relationships from being compromised by departing employees. Where a company introduces customers to an employee on condition that the employee will not solicit the customer after leaving the company's employ, courts will enforce non-solicitation clauses designed to protect that bargain. [1] Agreements not to solicit customers or clients of a former employer are generally controlled by the same standards as are applicable to other non-compete agreements. Courts will refrain, however, from enjoining former employees from accepting business from former clients who voluntarily, and without active solicitation, contact the former employee and seek to retain her services.

Another business interest that courts will recognize is prevention of solicitation of a company's employees. Companies wish to limit "corporate raiding" as much as possible and will therefore enter into anti-employee solicitation covenants. Courts will generally enforce these agreements, applying the same standards as other restrictive covenants, [2] to the extent that the agreement prohibits solicitation of employees. The courts are mindful, however, that these agreements cannot prohibit the employees from leaving and going to work for a new company. [3]

C. Non-Disclosure of Confidential Information

Employers may attempt to protect proprietary information from being misappropriated from former employees. Not all information is granted protection, however. Information will be deemed worthy of protection if it is genuinely proprietary and confidential, such that its disclosure would give the new employer an unfair advantage over the old one; the employee's mere skill or experience does not satisfy this requirement. Customer lists that are developed by a business through substantial effort and that are kept in confidence may be treated as trade secrets and therefore an interest that can be protected.

III. ENFORCEABILITY OF NON-COMPETITION AGREEMENTS [4]

Because the law values free mobility of employees and free (but fair) competition, non-competition agreements are looked on by the courts with disfavor in every jurisdiction [5] and are prohibited or limited by state statute in several states. [6] The reasoning behind the courts' disfavor of these types of restrictive covenants include a desire not to interfere with an individual's ability to earn a livelihood; [7] their conflict with notions of a free economy; [8] and a desire not to give undue protection to an employer who merely happened to be the first to establish a business of that kind in that area. [9]

Generally, a valid agreement not to compete must be ancillary to another agreement and cannot be entered into for the sole purpose of restricting competition. As with any other contract, it must be supported by adequate consideration. [10]

Courts will enforce a restrictive covenant only if it is reasonable and protects an employer's legitimate business interest. Factors considered include: (1) does the employer have a legitimate interest in being protected from the competition of the employee? (2) is the agreement reasonable in light of all the circumstances? (3) is the agreement reasonably limited in time and geography? and (4) will enforcement of the agreement prove harmful or unduly burdensome to the public? [11] Courts may also consider additional factors such as: (1) the employee's ability and intent to compete; (2) the employee's relationships and contacts with those who have expertise in the business; and (3) the employee's relationships and contacts with customers. [12]

1. Legitimate Business Interest

Trade secrets and confidential information, as well as proprietary information, are widely recognized as protectable interests of an employer. Accordingly, employers have a legitimate business interest in preventing an employee's disclosure of trade secrets and preventing employees from releasing confidential information regarding the employer's customers. Often, counsel will have to determine what constitutes a trade secret or proprietary information. Forty-two states and the District of Columbia have adopted the Uniform Trade Secrets Act (see Exh. B), which not only defines what a trade secret is but also provides for rights and remedies. Generally, trade secrets are information and knowledge that the employer must maintain secret in order to be effective and ensure a fair competitive advantage. While not necessarily maintained for the benefit of the employer, confidential information must be kept private and cannot be accessible to the general workforce. Similarly, proprietary information is information that benefits the employer or provides it with competitive advantage.

2. Duration and Geographical Area

In determining whether a non-competition agreement is reasonable, courts will balance the employer's legitimate business interest against the employee's interest in working in her or his chosen profession. Accordingly, the employer must be able to demonstrate that the length of the restriction is reasonably necessary to prevent the employer's loss of business. This is a fact-intensive inquiry because reasonableness depends upon the facts involved, and no particular length of time is presumptively reasonable.

The geographical area detailed in the non-competition agreement must also be limited to the area that is reasonably necessary to protect the employer's interest. Again, a court will determine whether a geographical area is reasonable based on the specific facts involved. Generally, the area should be restricted to the area in which the employer does business, although employers will argue that the area should be restricted to where the employee does business.

3. Public Interest

Most courts agree that the balance of equities also takes into consideration whether the limitation harms the general public. This is hard to gauge, of course, but the advocate should be prepared to argue that the public interest is harmed when employees are prohibited from doing productive work in our society. [13] Conversely, employers will argue that the public has an interest in healthy competition and protecting proprietary information of businesses.

IV. WHEN A CLIENT BRINGS YOU A NON-COMPETITION AGREEMENT

An employee might seek consultation with an employment lawyer with regard to a non-competition agreement in three situations: (1) she was given a non-competition agreement by a potential employer as a condition of her employment; (2) she is required to sign a non-competition agreement by her current employer as a condition of her continued employment or of receiving certain compensation; or (3) her employer included a non-competition clause in her severance agreement.

As an experienced employment lawyer, you will want to be armed with a broad and comprehensive understanding of the applicable law. Generally, an employee who has not signed a non-competition agreement is free upon cessation of employment to engage in competitive employment, with a few exceptions. First, a former employee cannot use the trade secrets or

proprietary information of his former employer in order to obtain a competitive advantage. Also, a former employee cannot breach the duty of loyalty that she owes her former employer. [14] Therefore, employee advocates must examine a client's employment history with care. Such review should encompass a review of the employee's past work history; her relationship with the former employer; the nature and scope of her former duties; the nature of the employee's knowledge; the business of the former employer; and how the employee plans to operate in the future.

If a client asks you to review a non-competition agreement in the drafting or negotiation stage, you should:

1. Make the contract as narrow as possible by limiting the kinds of activity that will constitute a breach (be as specific as possible).

2. Negotiate the period of time that the agreement will be effective to a minimum.

3. Keep the geographic area within which the employee is agreeing not to compete to the smallest area possible.

4. Ensure that the geographical limits are reasonable in consideration of the market or client served by the employee.

5. Limit the size of the geographical area to the size of the employer's market at present and specifically exclude subsequent larger or later merged entities.

6. Restrictions should not extend beyond the end of the severance pay period (i.e., severance pay should be paid for the entire duration of such restriction).

7. If the covenant is to be extended so that it does not start until the end of a period that the employee was in breach of it, limit the extension to the court's finding on the subject and not the former employer's unilateral determination.

8. A connection should be made between the length of the employee's employment and the duration of the prohibitory period. An employee who is discharged a few short months after employ should not be confronted with a two-year non-competition agreement.

9. The agreement should provide that if the employee is laid off, or terminated without cause, the non-compete will not be enforced. [15]

10. Try to avoid language in the contract stating that, if a breach should

occur, injunctive relief will be granted.

11. Avoid, if possible, language that would prevent the employee from working for a company that has any division or affiliate that competes with any division or affiliate of the employer.

With regard to non-solicitation and non-raid agreements, counsel can improve her client's position by distinguishing between actively soliciting business as opposed to simply responding to inquiries; evaluating the circumstances of a contact, including who initiated it; and assessing whether the people solicited were known to the former employee only by virtue of her employment.

V. EMERGING ISSUES

A. Doctrine of Inevitable Disclosure

Under the inevitable disclosure doctrine, courts may enjoin a former employee from taking a job where the employee would inevitably disclose or use the former employer's confidential information. If the doctrine is applied by the court, the employee is prevented from taking certain positions at rival companies even where he has neither signed a non-competition agreement nor taken confidential information.

1. Pepsico, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).

Although it is not the earliest case, this Seventh Circuit opinion is cited as the seminal case under this doctrine. A former employee who had not signed a non-competition agreement was enjoined from working for a limited time for the former employer's competitor. The court also prohibited the employee from disclosing trade secrets and confidential information because the employer established that he would inevitably disclose trade secrets to the competitor and such disclosure would irreparably harm the employer. The court examined the following factors in determining whether the employee would inevitably disclose the employer's trade secrets: (1) was he in possession of trade secrets? (2) was he a high-level manager? (3) did he have significant relationship with clients of the former employer? and (4) would he be working for a direct competitor? The court also opined that evidence of bad faith by the employee was a factor for the court to consider.

After Pepsico, the fear among plaintiff's attorneys was that this doctrine would be broadly applied by the courts in situations in which the employee had not entered into a non-competition agreement. This has not been the case, however. [16] Although numerous cases have been decided under the

theory of inevitable disclosure on facts similar to Pepsico, the great majority of them involved existing covenants not to compete. [17] The doctrine has been applied in a more limited number of cases in which no non-competition agreement was in place. [18]

2. Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111 (N.D. Cal. 1999).

In Bayer, a high-level executive with access to confidential information left his employment with Bayer and began working for its direct competitor, Roche. Bayer sought an injunction preventing the former employee from working at Roche.

The district court held that the inevitable disclosure doctrine was inapplicable in California. The court also held that, in order to prove misappropriation of trade secrets, the former employer would have to show either actual use of the trade secret or an actual threat of use. Because Bayer was unable to do so, the court denied its motion. In the alternative, the court ordered the former employee and Roche to submit periodic discovery so Bayer could determine whether its trade secrets were being misappropriated.

3. EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299 (S.D.N.Y. 1999), rev'd in part on other grounds, 205 F.3d 1322 (2d Cir. 2000) (unpub. op.), aff'd after remand, 2000 WL 1093320 (2d Cir. May 18, 2000).

In EarthWeb, the parties entered into an employment agreement that contained a non-competition clause as well as a confidentiality clause. The district court refused to apply the inevitable disclosure doctrine when a company providing on-line services to information technology professionals tried to enjoin a former employee from going to work for a competitor. The court criticized the dangers inherent in the inevitable disclosure doctrine, noting that, absent evidence of actual misappropriation by an employee, the doctrine should be applied "only in the rarest of cases." Id. at 310.

4. Lucent Technologies, Inc. v. Tyman, 106 F. Supp. 2d 189 (D. Mass. 2000).

The court in Lucent denied the plaintiff's preliminary injunction motion, holding that it was not likely to succeed on the merits. Specifically, the court found no evidence that any of the plaintiff's former employees actually disclosed proprietary or confidential information to their new employer, a direct competitor of the plaintiff.

B. Unique Employee Doctrine

Even if the employer does not have confidential or proprietary information

that needs protecting, courts in a limited number of jurisdictions will protect businesses from competition by a former employee whose services are unique or extraordinary. This unique employee doctrine has been applied in only a few jurisdictions to prevent former employees from working for a competitor when the employee has developed "unique" services or has a unique relationship with the employer's customers. This doctrine had once been applied only to employees with "special talents" such as musicians, professional athletes, actors, and writers. Recently, the category of employees against whom courts will enforce the doctrine has considerably widened, as the following cases demonstrate.

1. MTV Network v. Fox Kids Worldwide, Inc., 1998 WL 57480 (N.Y. Sup. Ct. Feb. 4, 1998).

In MTV Network, the once-dormant "unique employee" doctrine was given new life. The court enjoined a former executive from working for the competitor for one year, the term of his non-competition agreement. The court found that, because the former executive played a key role in developing MTV strategies, had access to MTV's confidential information including MTV's budget process, and was MTV's "public face," he was a unique employee with unique skills and knowledge.

2. Ticor Title Ins. Co. v. Cohen, 173 F.3d 63 (2d Cir. 1999).

In Ticor, the plaintiff sought to enforce a non-competition agreement against a former senior executive and principal "rainmaker." After an evidentiary hearing, the district court granted an injunction prohibiting the former executive from working for a competitor for six-months following his termination.

On appeal, the former executive argued that the services he had provided Ticor were not sufficiently unique to justify enforcement of the non-competition agreement. The Second Circuit rejected this argument, holding that employees may be deemed unique if they "had unique relationships with the customers with whom they have been dealing, which were developed while they were employed, and partially at the employer's expense." Id. at 71. Applying this standard to the former executive, the court held that his relationships with his clients were "special" and qualified as "unique services." The court also found persuasive the fact that the employee signed the agreement not to compete after extensive negotiations by attorneys representing both sides, and the fact that he received a lucrative compensation package in return for assenting to the restrictive covenant. Importantly, the court focused its inquiry more on the relationship of the employee's services to the employer's business than on the individual employee's qualifications.

3. Hekimian Labs, Inc. v. Domain Sys., Inc., 664 F. Supp. 493 (S.D. Fla. 1987).

The district court in Hekimian Labs, finding that Maryland state law applied, held that the general rule in Maryland was that restrictive covenants may be applied and enforced only against those employees who provide unique services, or to prevent the future misuse of trade secrets, routes or lists of clients, or solicitation of customers. The district court enforced a one-year non-competition agreement, finding the former employee unique for several reasons: (1) the former employee had intimate knowledge of the former employer's confidential, long-range product development schedule; (2) the former employee had designed the employer's remote access system; (3) the former employee had personal knowledge of the employer's customers' particular needs and wishes; (4) the former employee had been the employer's first and only Director of Systems Engineering.

C. Geographical Limits

One way in which the courts determine the reasonableness of a non-competition agreement is to examine its geographical limits. With the globalization of business, questions arise as to the applicability of geographical limits in non-competition agreements. Thankfully, courts are still requiring geographical limitations to be a key element in finding restrictive covenants reasonable. [19]

However, the increased mobility of commerce drives more courts to find that nationwide restrictions are reasonable under certain circumstances. [20] An egalitarian argument that employee advocates might make is that a global economy necessitates the elimination of non-competition agreements wholly, given that a worldwide restrictive covenant is presumptively unreasonable and, from a practical standpoint, not enforceable.

D. Garden Leave

One alternative to non-competition agreements is a practice born in England called "garden leave." "Garden leave" is a colloquial term for a special type of restrictive covenant whereby the employee remains under contract, on the payroll, for a fixed period following his resignation notice. This protects the former employer from its concerns about proprietary information and removes a justifiable concern of the courts that the employee will not be able to earn a living.

1. Lumex Inc. v. Highsmith & Life Fitness, 919 F. Supp. 624, 635 (E.D.N.Y. 1996).

In Lumex, the court enforced a six-month restrictive covenant

that required the employer to pay the former employee full compensation and health and life insurance premiums during the non-competition period.

2. Maltby v. Harlow Meyer Savage Inc., 166 Misc. 2d 481 (Sup. Ct. N.Y. Co. 1995).

In Maltby, the court enforced a six-month non-competition agreement that provided for the employer to pay the former employee during the six months in which he could not compete. In addressing the employer's concerns, the court found that the six months also protected the interests of the former employer because it would take at least six months for a replacement broker to develop the same relationships with the employer's customers.

3. Hekimian Laboratories, Inc. v. Domain Systems, Inc., 664 F. Supp. 493 (S.D.Fla. 1987).

In Hekimian, as outlined above, the court determined that no undue hardship was imposed upon the employee under the terms of the non-competition agreement because it provided that the employee was to receive half of his salary for the duration of the non-competition period.

E. Judicial Examination of Employer's Business Interest

In their efforts to limit the reach of non-competition agreements, employee advocates need to argue that courts must carefully examine an employer's proclaimed business interest. In doing so, the court must determine whether the restrictive covenant is warranted in the particular circumstances of the individual case. Broadly speaking, a covenant should only be enforced if it is necessary to protect a legitimate business interest. If the non-competition agreement is overly broad in protecting that interest, or that asserted business interest itself is too broad, then the court should find that agreement unreasonable and therefore unenforceable.

1. BDO Seidman v. Hirschberg, 712 N.E.2d 1220 (N.Y. 1999).

This case provides a good analysis by a court examining the proclaimed business interest of the employer. There, the non-competition agreement provided that, if the former employee served any client of the employer within eighteen months after leaving the firm, he would compensate the firm for its "loss and damages" attributable to the employee's servicing the client. The New York Court of Appeals noted that the employer had a legitimate interest in preventing the former employee from using "information or relationships which pertain peculiarly to the employer and which the employee acquired in the course of employment." Id. at 1224. The employer's interest is limited, however, to the use of client relationships that the firm enabled the former employee to acquire during the course of

his employment with the firm. To the extent the non-competition agreement applies to the firm's clients with whom the former employee did not develop a relationship through assignments to perform direct, substantive accounting services, this violates the reasonableness test and constitutes a restraint "greater than is needed to protect" those legitimate interests. Accordingly, the court held that the covenant was unenforceable with regard to those clients that did not constitute a protectable interest of the employer.

F. The Impact of Termination on Non-Competition Agreements

The trend with the most impact on employees is the emerging reluctance of courts to enforce non-competition agreements in cases in which the employer terminates the employee. In a small number of jurisdictions, the courts will find that employee termination voids the contract. In a growing number of cases, the court will examine whether the termination by the employer was done in good or bad faith. If done in good faith, the courts will not consider the termination as a factor weighing against enforcement, but if done in bad faith, the non-competition agreement will not be enforced.

1. Termination Voids the Restrictive Covenant

a. Insulation Corp. of America v. Brobston, 667 A.2d 729 (Pa. Super. Ct. 1995).

In Insulation Corp., an employer terminated an employee, who had signed a non-competition agreement, for poor performance. The court, in refusing to enforce the non-competition agreement, relied heavily upon the fact that the employer fired the employee, stating that once an employee is terminated, "the need to protect [the employer] from the former employee is diminished by the fact that the employee's worth to the corporation is presumably insignificant." See id. at 735.

b. SIFCO Indus. v. Advanced Plating Techs., 867 F. Supp. 155 (S.D.N.Y. 1994).

In SIFCO Industries, the court held that the employees' involuntary termination was dispositive of the issue of enforcement of the non-competition clause. The court held that, because the former employees were involuntarily terminated, the court need not examine whether the agreement was reasonable because it is, as a matter of law, unenforceable.

2. Good Faith/ Bad Faith Distinction

a. Rao v. Rao, 718 F.2d 219 (7th Cir. 1983).

In this leading case from the Seventh Circuit, the employee was a physician fired by the employer without good cause and in "bad faith." The Seventh Circuit, applying Illinois state law, held that because the employee was terminated in bad faith, the non-competition clause was per se invalid. Specifically, the court held that non-competition clauses that "become effective when an employee is terminated without good cause [are] not reasonably necessary to protect an employer's good will." Id. at 224.

b. Property Tax Representatives, Inc. v. Chatam, 891 S.W.2d 153 (Mo. Ct. App. 1995).

The court in Property Tax Representatives held that the central issue to be determined was whether the employee, an appraiser, was fired in bad faith. The court concluded that he had been and found the non-competition agreement to be unenforceable. In doing so, the court was not persuaded by the employer that its interest in protecting its client base overrode its bad faith in terminating the employee.

c. Bishop v. Lakeland Animal Hosp., P.C., 644 N.E.2d 33 (Ill. App. Ct. 1994).

In Bishop, the court held that an employee terminated without good cause cannot have a non-competition agreement enforced against him.
The court relied on the long-standing rule that restraints on free trade are looked upon with disfavor, focusing on the fairness to the employee in enforcement of restrictive covenants.

VI. CONCLUSION

There is considerable variation in the scope, temporal length, and geographical area of non-competition agreements. While the best solution for a plaintiff's lawyer is to negotiate such a clause out of the agreement altogether, that is usually impossible once management has proposed it. Violating such a clause simply because the plaintiff's lawyer considers it overbroad is a dangerous course, both because the course of the law is somewhat unpredictable and because, even if the employee ultimately defeats an injunction action, such an action will cost money to defend that cannot be recovered even if he wins. Negotiation of the narrowest possible non-competition clause, using whatever leverage is at hand, is the only reliable course.

Exhibit A:
ISSUES FOR ADVOCATES TO CONSIDER:
by Arnold Pedowitz

(i) Non-compete Cases:

a. Does the signing of a covenant not to compete at the inception of the employment relationship provide sufficient consideration to support the covenant?

b. Will continued employment provide sufficient consideration to support a covenant not to compete entered into after the employment relationship has started?

c. Will a change in the terms and conditions of employment provide sufficient consideration to support a covenant not to compete entered into after the employment relationship has begun?

d. Can at-will employment provide consideration for a non-compete agreement?

e. What factors will the court consider in determining whether the time and geographic restrictions in the covenant are reasonable?

f. Who has the burden of proving the reasonableness or unreasonableness of the covenant not to compete?

g. What type of time or geographic restrictions has the court found to be enforceable? Unenforceable?

h. Will the court allow a customer restriction to substitute for, or complement, a geographic restriction?

i. What must the employer prove to obtain a preliminary injunction enforcing the covenant not to compete?

j. If it is a necessary element of proof, how does the employer establish irreparable harm?

k. What is the standard of review on appeal of a trial judge's decision, following a preliminary injunction hearing, enforcing or refusing to enforce a covenant not to compete?

l. If the restrictions in the covenant not to compete are unenforceable because they are overbroad, will the court "blue pencil" the covenant to make the restrictions more narrow and to make the covenant enforceable? If

yes, under what circumstances will the courts allow reduction, and what form of reduction will the courts permit?

m. If the employer terminates the employment of the employee, especially without cause, is the covenant enforceable?

n. If the court finds that the employee has breached the restrictive covenant, will the court measure the period of injunction from the date of termination of employment or the date of the court order?

o. What damages may an employer recover, and from whom, for a breach of a covenant not to compete?

p. Does a liquidated damage clause for breach of the covenant not to compete preclude injunctive relief to enforce the covenant?

q. What choice of law rules apply to determine which state's law will govern an action seeking to enforce a covenant not to compete?

r. Will the employer's unclean hands defeat its attempt to enforce the non-compete agreement?

(ii) Duty of Loyalty Cases:

a. How is the duty defined in your state?

b. What is the scope of the duty and how does it impact on the particular conduct your client is contemplating?

c. Is the duty being evaluated in the abstract, or is there a non-compete, trade secret or confidential information agreement that needs to be factored in?

d. Is the employee's planned course of action simply preparatory to starting a new venture or is he actually conducting a competitive enterprise?

e. What factors do the courts in your state consider in deciding whether the information at issue is deserving of protection, whether as a trade secret or as confidential information?

f. If there is a possibility that trade secrets or confidential information may be implicated, what steps has the employer taken to protect the information from becoming public, and/or is the information actually in the public domain?

g. If the information as to which a claim of confidentiality or trade secret

protection consists is a compilation of publicly known facts, will that compilation be deserving of protection in your case?

h. What penalties may be assessed by a court in your state against a client who has breached his duty of loyalty?

iii) Assignability:

Is a covenant not to compete assignable? And, if assigned, is it enforceable? After all, an employee's agreement not to compete with his employer in the geographic area where the employer has offices, and for products serviced by an employer, means one thing when the employer is a small local company with a discrete number of accounts, but it means something entirely different when that small company is subsequently acquired by a national organization with offices all over the country servicing many products.

The general rule is that covenants not to compete are assignable. Safelite Glass Corp. v. Fuller, 15 Kan.App.2d 351, 807 P.2d 677, 679 (Kan.App. 1991). The minority view is that non-compete agreements are personal service contracts, which cannot be assigned to a third party without the consent of all of the parties. See, e.g., Reynolds and Reynolds Co. v. Hardee, 932 F. Supp. 149 (E.D.Va. 1996). Courts will give weight to a provision in the contract that allows for its assignment. Peters v. Davidson, Inc., 172 Ind.App. 39, 359 N.E.2d 556, 562 (Ind.App. 1 Dist. 1977). Courts will also consider whether the employee implicitly waived any objection to the assignment by continuing to work for the new entity thereafter. Norlund v. Faust, 675 N.E.2d 1142 (Ind.App. 1997), clarified, 678 N.E.2d 421 (Ind.App., 1997).

Within New York a covenant not to compete is generally viewed as being assignable. Special Products Mfg., Inc. v. Douglass, 159 A.D.2d 847, 553 N.Y.S.2d 506 (3d Dep't 1990), Abalene Pest Control Service, Inc., v. Powell, 8 A.D.2d 734, 187 N.Y.S.2d 381 (2d Dep't 1959). There are times when the parties intend that a non-compete provision should not be assignable and it is for this reason that the document must be examined in order to ascertain the issue of intent. Further, New York requires that there be "a clear and unambiguous prohibition . . . to effectively prevent assignment (see, 6 N.Y.Jur.2d, Assignments, §10, at 244-245)." Special Products, supra, 159 A.D.2d at 849, 553 N.Y.S.2d at 509.

(iv) The Employee Choice Doctrine:

Where there is a non-compete agreement in place, you should also consider whether the employee choice doctrine may require a forfeiture of benefits if the competition takes place. It provides that "an employee who

receives benefits conditioned on not competing with the conferring employer has the choice of preserving his benefits by refraining from competition or risking forfeiture of such benefits by exercising his right to compete." Kristt v. Whelan, 4 A.D.2d 195, 199 (1st Dep't 1957), aff'd w/o op., 5 N.Y.2d 807 (N.Y., 1958).

When the doctrine is applicable, the reasonableness, or lack thereof, of the covenant may not matter. In Lucente v. International Business Machines Corp., 1999 WL 1033774 (S.D.N.Y., 1999) the court discussed the doctrine and pointed out that it was applied, and a forfeiture provision was enforced, in IBM v. Martson, 37 F. Supp. 2d 613 (S.D.N.Y., 1999). In Lucente, the court denied IBM's motion for judgment on the pleadings and noted that the only time that the doctrine can apply is when the employee had the choice of continued employment with the employer that imposed the forfeiture provision.

Exhibit B:

UNIFORM TRADE SECRETS ACT WITH 1985 AMENDMENTS
TABLE OF JURISDICTIONS WHEREIN ACT HAS BEEN ADOPTED

Jurisdiction	Effective Date	Statutory Citation
Alabama	8-12-1987	Code 1975, §§ 8-27-1 to 8-27-6.
Alaska	9-2-1988	AS 45.50.910 to 45.50.945.
Arizona	4-11-1990	A.R.S. §§ 44-401 to 44-407.
Arkansas	3-12-1981	A.C.A. §§ 4-75-601 to 4-75-607.
California	1-1-1985	West's Ann.Cal. Civ.Code §§ 3426 to 3426.11.
Colorado	7-1-1986	West's C.R.S.A. §§ 7-74-101 to 7-74-110.
Connecticut	6-23-1983	C.G.S.A. §§ 35-50 to 35-58.
Delaware	4-15-1982	6 Del.C. §§ 2001 to 2009
District of Columbia	3-16-1989	D.C.Code 1981, §§ 48-501 to 7-216 48-510.
Florida	10-1-1988	West's F.S.A. §§ 688.001 to 688.009.
Georgia	7-1-1990	GCA §§ 10-1-760 to 10-1-767.
Hawaii	7-1-1989	HRS §§ 482B-1 to 48 2B-9.
Idaho		I.C. §§ 48-801 to 48-807.
Illinois	1-1-1988	S.H.A. 765 ILCS 1065/1 to 1065/9.
Indiana	2-25-1982	West's A.I.C. 2 4-2-3-1 to 24-2-3-8.
Iowa	4-27-1990	I.C.A. §§ 550.1 to 550.8.
Kansas	7-1-1981	K.S.A. 60-3320 to 60-3330.
Kentucky	4-6-1990	KRS 365.880 to 365.900.
Louisiana	7-19-1981	LSA-R.S. 51:143 1 to 51:1439.
Maine	5-22-1987	10 M.R.S.A. §§ 1541 to 1548
Maryland	7-1-1989	Code, Commercial Law, §§11-1201 to 11-1209.
Michigan	1-1-1998	M.C.L.A. §§ 445.1901 to 445.1910
Minnesota	1-1-1981	M.S.A. §§ 325C.01 to 325C.08.
Mississippi	7-1-1990	Code 1972, §§ 75-26-1 to 75-26-19.
Missouri	8-28-1995	V.A.M.S. §§ 417.450 to 417.467.
Montana		MCA 30-14-401 to 30-14-409.
Nebraska	7-9-1988	R.R.S.1943, §§ 87-501 to 87-507.
Nevada	3-5-1987	N.R.S. 600A.010 to 600A.100.
New Hampshire	1-1-1990	RSA 350-B:1 to 350-B:9.
New Mexico	4-3-1989	NMSA 1978, §§ 57-3A-1 to 57-3A-7.
North Dakota	7-1-1983	NDCC 47-25.1-01 to 47-25.1-08.
Ohio	7-20-1994	R.C. §§ 1333.61 to 1333.69.
Oklahoma	1-1-1986	78 Okl.St.Ann. §§ 85 to 94.
Oregon	1-1-1988	ORS 646.461 to 646.475.
Rhode Island	7-1-1986	Gen.Laws 1956, §§ 6-41-1 to 6-41-11.
South Carolina	6-15-1992	Code 1976, §§ 39-8-1 to 39-8-11.
South Dakota	7-1-1988	SDCL 37-29-1 to 37-29-11.
Utah	5-1-1989	U.C.A.1953, 13-24-1 to 13-24-9

Vermont	7-1-1996	9 V.S.A. §§ 4601 to 4609, 12 V.S.A. § 523.
Virginia	7-1-1986	Code 1950, §§ 59.1-336 to 59.1-343.
Washington	1-1-1982	West's RCWA 19.108.010 to 19.108.940.
West Virginia	7-1-1986	Code, 47-22-1 to 47-22-10
Wisconsin	4-24-1986	W.S.A. 134.90.

UNIFORM TRADE SECRETS ACT WITH 1985 AMENDMENTS

§ 1. Definitions.

As used in this [Act], unless the context requires otherwise:
(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;
(2) "Misappropriation" means:
(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.
(3) "Person" means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.
(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

§ 2. Injunctive Relief.

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
(b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.
(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

§ 3. Damages.
(a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.
(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

§ 4. Attorney's Fees.
If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

§ 5. Preservation of Secrecy.
In an action under this [Act], a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

§ 6. Statute of Limitations.
An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence

should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

§ 7. Effect on Other Law.
(a) Except as provided in subsection (b), this [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil liability remedies for misappropriation of a trade secret.
(b) This [Act] does not affect:
(1) contractual remedies, whether or not based upon misappropriation of a trade secret;
(2) criminal liability for other civil remedies that are not based upon misappropriation of a trade secret; or
(3) criminal remedies, whether or not based upon misappropriation of a trade secret.

§ 8. Uniformity of Application and Construction.
This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it.

§ 9. Short Title.
This [Act] may be cited as the Uniform Trade Secrets Act.

§ 10. Severability.
If any provision of this [Act] or its application to any person or circumstances is held invalid, the invalidity does not affect other provisions or applications of the [Act] which can be given effect without the invalid provision or application, and to this end the provisions of this [Act] are severable.

---

[1] See Leon M. Reiner & Co., P.C. v. Cipolla, 929 F. Supp. 154, 158 (S.D.N.Y. 1996).

[2] See Cap Gemini America, Inc. v. Judd & Software Synergy, 597 N.E.2d 1272, 1287 (Ind. Ct. App. 1992) (non-solicitation agreement restricting former employee who worked in California from soliciting remaining employees was overbroad with respect to employees in former employer's Indianapolis, Indiana, branch office).

[3] See Leon M. Reimer & Co., P.C. v. Cipolla, 929 F. Supp. 154 (S.D.N.Y. 1996) (refusing to enjoin former employees from accepting business from former clients who "voluntarily and without active solicitation" contact the former employee and seek to retain their services).
[4] Portions of this and the following section of the outline, as well as

Exhibit A, were adapted with permission by the authors from Arnold H. Pedowitz, Agreements That Restrict Competition Advice from the Plaintiff's Perspective: Legal and Ethical Issues, 625 PLI/Lit 331 (March 2000).

[5] See, e.g., Sentilles Optical Servs. v. Phillips, 651 So. 2d 395 (La. App. 2d Cir. 1995); Faces Boutique, Ltd. v. Gibbs, 318 S.C. 39 (S.C. App. 1995); Briskin v. All Seasons Service, Inc., 206 A.D.2d 906 (Dep't 1994); Creative Entertainment Inc. v. Lorenz, 638 N.E.2d 217 (Ill. App. 1st Dist. 1994).

[6] Alabama, California, Colorado, Florida, Hawaii, Louisiana, Montana, Nevada, North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Texas and Wisconsin all have statutes that impact on non-competition agreements.

[7] Brunner v. Hand Industries, 603 N.E.2d 157 (Ind. App. 3d Dist. 1992); Lewmor, Inc. v. Fleming, 1986 WL 1244 (Del. Ch. 1986); Chrysalis Health Care, Inc. v. Brooks, 640 N.E.2d 915 (Ohio Mun. 1994); Milner Airco, Inc. v. Morris, 433 S.E.2d 811 (N.C. App. 1993); Sentilles Optical Servs. v. Phillips, 651 So. 2d 395 (La. App. 2d Cir. 1995); Lehman v. Standard Forms, Inc., 1995 WL 54443 (Del. Ch. 1995).

[8] Laidlaw Inc. v. Student Transp. of America, Inc., 20 F. Supp. 2d 727 (D.N.J. 1998); Millard Maintenance & Serv. Co. v. Bernero, 566 N.E.2d 379 (Ill. App. 1st Dist. 1990).

[9] Nigra v. Young Broadcasting, 177 Misc. 2d 664 (Supreme Court New York City 1998); Federated Mutual Ins. Co. v. Bennett, 818 S.W.2d 596 (Ark. App. 1991).

[10] Special Prods. Mfg. Inc. v. Douglass, 159 A.D.2d 847 (N.Y. App. Div. 1990).

[11] Hayes v. MSP Communications, 1998 WL 188567 (Minn. App. 1998); In-Flight Newspapers, Inc. v. Magazines In-Flight, LLC, 990 F. Supp. 119 (E.D.N.Y. 1997); HPD, Inc. v. Ryan, 227 A.D.2d 448 (App. Div. Dep't 1996); Totino v. Alexander & Assocs., Inc., 1998 WL 552818 (Tex. App. 1998); Platinum Management, Inc. v. Dahms, 666 A.2d 1028 (N.J. Super. Ct. Law Div. 1995); Clark v. Liberty Nat'l Life Ins. Co., 592 So. 2d 564 (Ala. 1992); New England Ins. Agency, Inc. v. Miller, 1991 WL65755 (Conn. Super. 1991); Seymour v. Buckley, 628 So. 2d 554 (Ala. 1993).

[12] Lorvic Holding v. Commission of Internal Revenue, 1998 WL 437287 (T.C. 1998).

[13] See Dynamics Research Corp. v. Analytic Sciences Corp., 400 N.E.2d 1274, 1282 (Mass. App. 1980) (the Massachusetts Appeals Court noted that

restricting the use of postemployment restraints "promotes the public interest in labor mobility and the employee's freedom to practice his profession and in mitigating of monopoly."); Restatement (Second) of Contracts s 188 cmt. c (1981) (noting that "the likely injury to the public from a postemployment restraint may be too great if it is seriously harmed by the impairment of the employee's economic mobility or by the unavailability of the skills developed in his employment.").

[14] For a more detailed analysis of the duty of loyalty, see Arnold H. Pedowitz, Agreements That Restrict Competition Advice from the Plaintiff's Perspective: Legal and Ethical Issues, 625 PLI/Lit 331 (March 2000).

[15] Michael I. Weintraub, M.D., P.C. v. Schwartz, 131 A.D.2d 663 (App. Div. Dep't 1987); Neeb-Kearney & Co., Inc. v. Rellstab, 593 So. 2d 741 (La. App. 4th Cir., 1992); Empiregas, Inc. v. Bain, 599 So. 2d 971, 975 (Miss. 1992).

[16] See Matthew K. Miller, Inevitable Disclosure Where No Non-Competition Agreement Exists: Additional Guidance Needed, 6 B.U.S.T.L. 9, 32, June 1, 2000.

[17] See, e.g., Bridgestone/Firestone, Inc. v. Lockhard, 5 F. Supp. 2d 667, 680-82 (S.D. Ind. 1998) (refusing to grant an injunction in the presence of a covenant not to compete where there was no evidence that the employee had or would disclose sensitive information); APAC Teleservices, Inc. v. McRae, 985 F. Supp. 852, 868-69, (N.D. Iowa 1997) (refusing to grant an injunction where the employee left a technical position to take a managerial position despite the existence of a signed non-competition agreement); Carboline Co. v. Lebeck, 990 F. Supp. 762, 768 (E.D. Mo. 1997) (denying an injunction where a non-competition agreement existed and holding that the former employer needed to assert more than that a skilled employee was taking his abilities to a competitor); Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 625, 636 (E.D.N.Y. 1996) (granting an injunction where the employee had signed a "Technical Information and Non-Competition Agreement").

[18] See, e.g., Merck & Co., Inv. v. Lyon, 941 F. Supp. 1443, (M.D.N.C. 1996) (upholding an injunction against the former employee from working for a direct competitor where no non-competition agreement was in place, yet the injunction was necessary to protect specifically identified trade secrets of significant value); DoubleClick, Inc. v. Henderson, 1997 WL 731413 (N.Y. Sup. Ct. Nov. 7, 1997) (applying the inevitable disclosure doctrine to two former employees of an internet advertising firm not to engage in competition with their former employer for six-months after leaving it).

[19] S.G. Cowen Securities Group Corp. v. Messih, 2000 WL 633434 (S.D.N.Y. May 17, 2000) (declining to enforce a non-competition agreement, finding:

[u]nder New York law, non-compete agreements that lack geographic restriction are disfavored and are routinely held unreasonable. See, e.g., Great Lakes Carbon Corp. v. Koch Industries, Inc., 497 F. Supp. 462, 471 (S.D.N.Y.1980) (holding unreasonable a restriction with "no geographical limitation whatsoever"); Garfinkle v. Pfizer, Inc., 556 N.Y.S.2d 322, 323 (1st Dep't 1990) (refusing to enforce a restrictive covenant whose geographic scope "encompasses the entire world")).

[20] Kunin v. Kunin, 1999 WL 486814 (Minn. App. July 13, 1999) (enforcing a non-compete that prohibited the former employee from competing anywhere in the United States for eleven years); National Business Services, Inc. v. Wright, 2 F. Supp. 2d 701 (E.D. Pa. 1998) (enforcing a one-year, national non-competition agreement, specifically finding that Internet business is not limited to state boundaries); Maltby v. Hallow Meyer Savage, 166 Misc. 2d 481, 482 (Sup. Ct. N.Y. Co. 1995) (issuing a preliminary injunction barring a group of currency traders from engaging in competitive activities during the restricted period "within New York . . . Los Angeles . . . greater Toronto . . . greater London Metropolitan Area, and Continental Europe").