Stretching Beyond the Sea Shore: Non-Compete Geographic Restrictions in a Virtual World

Presented by:

Covenants Not to Compete and Trade Secrets Subcommittee

Editors-in-Chief:
David J. Carr, Ice Miller LLP, Indianapolis, Indiana
Arnold Pedowitz, Pedowitz & Meister, LLP, New York, NY
Eric A. Tate, Morrison, Foerster LLP, San Francisco, CA

Contributors:
Christina H. Bost Seaton, Troutman Sanders LLP, New York, NY
Deirdre A. Fox, Scharf, Banks, Marmor LLC, Chicago, IL
Robert S. Gilmore, Kohrman Jackson & Krantz P.L.L.
Melissa Goodman, Haynes & Boone LLP, Dallas, TX
Vanessa M. Kelly, Kelly & Associates, Annandale, NJ
Christopher J. Harristhal, Larkin Hoffman Daly & Lindgren Ltd., Minneapolis, MN
Connie Reeve, Blake, Cassels & Graydon LLP, Toronto, Ontario, Canada
Abra C. Siegel, Siegel Law Offices Ltd., Chicago, IL
James M. Shore, Stoel Rives LLP, Seattle, WA

Presented For:

Employment Rights and Responsibilities Committee of the
ABA Section of Labor and Employment Law

Miami Beach, Florida—March 19-23, 2013
TABLE OF CONTENTS

FORUM SELECTION CLAUSES AND RESTRICTIVE COVENANTS..................................................1
I. MANDATORY FORUM SELECTION CLAUSES ESTABLISH PROPER VENUE AND
   OFTEN ALSO SUPPORT EXERCISE OF PERSONAL JURISDICTION OVER
   NONRESIDENTS..................................................................................................................... 2
II. ANALYTICAL FRAMEWORKS FOR ASSESSING ENFORCEABILITY OF A FORUM
   SELECTION CLAUSE.............................................................................................................. 3
   A. Careful Drafting is Crucial.............................................................................................. 5
   B. Public Policy against Restraints of Trade .................................................................... 6
   C. Public Policies against Forum Shopping ....................................................................... 13
   D. Grave Inconvenience Depriving One of Day in Court.................................................. 14
   E. Fraud, Overreaching, and Overweening bargaining power......................................... 15
III. FORUM SELECTION CLAUSES MAY BE ENFORCEABLE BY AND AGAINST NON-
    SIGNATORIES........................................................................................................................ 15
IV. DIFFERENT PROCEDURAL STANCES IN WHICH COURTS ADDRESS FORUM
    SELECTION CLAUSES ......................................................................................................... 17

ARE GEOGRAPHIC LIMITATIONS IN RESTRICTIVE COVENANTS OBSOLETE?.............20
I. RESTRICTIVE COVENANT BASICS--WHEN ARE RESTRICTIVE COVENANTS
   REASONABLE?....................................................................................................................... 20
II. WHEN ARE COURTS MOST LIKELY TO ENFORCE A NONCOMPETE WITH NO
    GEOGRAPHICAL LIMITS?............................................................................................... 21
   A. Where Employee Worked Worldwide ....................................................................... 21
   B. Where The Departing Employee Was A Highly-Ranked Employee, or Where the
      Employee Had Highly-Sensitive Competitive Information ....................................... 22
   C. Broad Geographical Limitation Permitted Where The Restrictive Covenant Addresses
      Only Particular Clients, Products, Or Services ............................................................. 23
III. CASES WHERE THE COURTS FOUND THAT A GEOGRAPHICAL LIMITATION WAS
    OVERBROAD AND COULD NOT BE BLUE PENCILED ................................................. 24
IV. CASE SUMMARIES, BY INDUSTRY, CONSIDERING BROAD GEOGRAPHICAL
    LIMITATIONS ...................................................................................................................... 25

GEOGRAPHIC LIMITATIONS IN CANADA..............................................................................40
I. SUMMARY OF THE CANADIAN JURISPRUDENCE REGARDING GEOGRAPHIC
    LIMITATIONS ....................................................................................................................... 41
II. CANADIAN CASE SUMMARIES ....................................................................................... 43

CONCLUSION .......................................................................................................................... 54
Introduction

The Internet allows even small employers to do business globally. Given the globalization of business, do the courts still consider geographic restrictions reasonable, meaningful, or viable? This paper discusses three aspects of this question. First, the role of forum selection clauses and jurisdiction concerning non-competes in the Internet age. Second, a survey examination of the core question in U.S. jurisprudence, and third, Canada's approach to these issues.

FORUM SELECTION CLAUSES AND RESTRICTIVE COVENANTS

Forum selection clauses aim to choose *ab initio* the jurisdiction for the litigation through contractual consent to a forum’s exercise of personal jurisdiction and venue.¹ Convenience or reducing expense (for one, a party’s local forum) or by picking a forum perceived to have more favorable law or remedies may motivate the selection. In agreements containing restrictive covenants, incentive looms to preselect a friendly forum should enforcement become necessary. Recent trends reflect general, but rebuttable, and not universal, judicial acceptance of well drafted, exclusive forum selection clauses in these agreements. Some cases even go so far as to endorse a binding effect on non-signatory third party beneficiaries or alter egos of, or closely related to, a signatory and the dispute. However, limits exist on a forum selection clause’s utility in stopping forum shopping and parallel litigation. As a practical matter, enforcement may be influenced by relative contacts of the parties, and their dispute, with the contractually selected forum and the other forum in which suit is filed or to which transfer of venue is sought, and the relative interests of the states in which these forums sit. It helps to remove cases to federal court, where possible, to enforce such clauses in suits filed in state courts in states with strong public policies opposed to enforcing restraints of trade upon that state's residents.

Parallel litigation may occur in restrictive covenant disputes, even with a forum selection clause, as parties race to the courthouse viewed as most favorable to their preferred outcome, regardless of forum selection clauses. Former employees and their new employers file actions for declarations that the covenants are void and unenforceable, while former employers file actions for temporary restraining orders and/or preliminary injunctions to enforce the covenants, as well as claims against new employers, such as tortious interference.² Enforcement of a forum selection clause surfaces as parties in respective proceedings seek to dismiss for lack of personal jurisdiction and/or for improper venue, to transfer, to stay or to enjoin parallel proceedings. Often, the former employer tries to apply the forum selection clause while the former employee seeks to avoid it; on occasion, these roles are reversed, for example, if the contractually selected

---

¹ The clause may select exclusive venue(s) and expressly submit to such forums’ exercise of personal jurisdiction or waive objections as to personal jurisdiction in such forums. Some clauses combine forum selection and choice of law.
² Independent sales representatives or former distributors, for others, may sign agreements with non-competes or other restrictive covenants. For convenience, this paper refers to employees and employers.
forum lacks personal jurisdiction over a nonresident new employer who was not a signatory to the contract containing the forum selection clause.\(^3\)

I. **Mandatory Forum Selection Clauses Establish Proper Venue and Often Also Support Exercise of Personal Jurisdiction Over Nonresidents.**

   Exclusive, and therefore mandatory, forum selection clauses generally stand (presumptively) enforceable to establish proper venue, unless the resisting party rebuts enforcement as unreasonable and unjust. A prevalent, though not universal, analytical framework (see section II below) used to evaluate enforceability likewise finds application in addressing venue and personal jurisdiction. Even if enforceable, however, such a clause alone will not always support personal jurisdiction: to exercise personal jurisdiction through a contract provision some states require more than the "minimum contacts" and "fair play and substantial fairness" required under the Constitution.

   Under federal law, and in many states, a mandatory forum selection clause supports a forum’s personal jurisdiction over a nonresident party to a contract as to claims that fall within the scope of the clause. *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1 (1972); *Carnival Cruise Lines v. Shute*, 499 U.S. 585, 596 (1991)(abrogated by federal statute as to forum selection clauses in the context of passenger tickets).\(^4\) Acceptance of such an exclusive and therefore mandatory clause is consent to personal jurisdiction or waiver of objections based on lack of personal jurisdiction, and is presumptively enforceable unless the resisting party establishes that enforcement is unreasonable and unjust.\(^5\)

---

\(^3\) Where the former employer seeks to escape the forum selection clause, courts have expressed additional skepticism as ordinarily, the former employer is the one that drafted the clause to which the employee had to agree.

\(^4\) In *M/S Bremen* and *Carnival Cruise Lines*, subject matter jurisdiction was based on admiralty and federal law was used to determine the enforceability of the forum selection clause. Unlike a motion to dismiss, on a motion to transfer under §1404(a), the factors under §1404(a) govern, one of which a forum selection clause. To this extent, 1404(a) supersedes *M/S Bremen*, although a forum selection clause remains a significant factor. See Section II, infra.

\(^5\) In effect, if the clause is mandatory and covers the claims at issue, and is not rebutted as unreasonable or unjust, its enforceability replaces a minimum contacts analysis, unless a state requires more under its long arm statute than constitutional requirements. Even if there is a forum selection clause, it is good practice to analyze and establish personal jurisdiction under the state’s long arm statute and the Constitution. Where a forum selection clauses does not explicitly address personal jurisdiction, courts have found consent to personal jurisdiction (or waiver of objections) is implicit in the consent to venue. See *Inso Corp. v. Dekotec Handelsges, mbH*, 999 F. Supp. 165, 168 (D. Ma 1998)(citations omitted) (despite the lack of a specific express waiver of personal jurisdiction, the Court followed a line of cases holding that consent to venue implies waiver of or consent to personal jurisdiction: "a waiver of objection to venue would be meaningless . . . if it did not also contemplate a concomitant waiver of objection to personal jurisdiction"); accord *Eareveision, Inc. v. Wyman*, 2012 U.S. Dist. LEXIS 76205, *7 (D.R.I. 2012), accepted by, 2012 U.S. Dist. LEXIS 76205(D.R.I. 2012). Although mandatory forum selection clauses have a strong and difficult to rebut presumption of enforceability, courts do not always entirely disregard permissive (non-exclusive) forum selection clauses consenting to personal jurisdiction. See *Textron Fin. Corp. v. Ship & Sail, Inc.*, 2010 U.S. Dist. LEXIS 46386, *9 (D. R.I. 2010)(rejecting Defendants' argument that the permissive forum selection clause should be disregarded in light of that fact that one agreement contained a permissive term "non-exclusive," while the other agreement contained the mandatory term "exclusive"); see also *Mobile Diagnostic Group Holdings, LLC v. Suer*, 972 A.2d 799, 804 (Del. 2009)(plaintiff sued a former employee/California resident in a Delaware court to enforce a non-compete agreement, and defendant moved to dismiss for lack of personal jurisdiction, however, the defendant did not waive personal jurisdiction by agreeing in
In some states, like Florida, a forum’s exercise of personal jurisdiction over a nonresident must meet more than the minimum contacts and fairness requirements of due process, and a mandatory forum selection clause alone will not support personal jurisdiction over a nonresident. In diversity cases, the long arm statute of the state in which a federal court sits and due process under the Constitution must provide personal jurisdiction. In *Rexam Airspray, Inc. v. Arminak*, 471 F. Supp. 2d 1292, 1298-1299 (S.D. Fla. 2007), under Florida law the forum selection clause did not establish personal jurisdiction in an action by a Florida based manufacturer against a California based company and its president for declaratory and injunctive relief to enforce non-competition and confidentiality provisions of the parties’ sales representative contract. The California company had been the exclusive independent sales representative for the manufacturer in twelve western states, including California. A forum selection clause in the contract, plus placement of four advertisements in internationally and nationally distributed trade journals not shown to have been directed to Florida businesses nor to have resulted in sales to Florida businesses, did not establish personal jurisdiction under Florida law. Florida’s long arm statute requires the nonresident party to have engaged in “continuous and systematic general business contacts,” and Florida courts require “substantial and not isolated activity.”

Even when insufficient alone, a forum selection clause remains a factor which weighs in favor of exercising personal jurisdiction. In *Autonation, Inc. v. Whitlock*, 276 F. Supp. 2d 1258 (S.D. Fla. 2003), a former employee allegedly had breached a restrictive covenant and confidentiality agreement and stock option agreements and had misappropriated trade secrets. Although the court observed that “[u]nder Florida law - which is the minority view - ‘a contractual choice of forum clause designating Florida as the forum cannot serve as the sole basis for asserting in personam jurisdiction over an objecting, non-resident defendant,” the court found that the forum selection clauses at issue were “a factor that can be weighed in favor of exercising personal jurisdiction” because the former employee testified he was not forced to sign any document at issue, and personal jurisdiction is expressly or implicitly waivable. Id. at 1263-65 (citations omitted). The record established that the employee engaged in the necessary continuous and systematic business activities with Florida to satisfy the Florida long arm statute and due process, and the court concluded that it could exercise personal jurisdiction. The employee worked for six months in Florida, personally attended six meetings in Florida and had ongoing business contacts with the employer in Florida regarding his work, and the agreements at issue had forum selection clauses in which the employee waived any objection to personal jurisdiction in Florida.7

II. **Analytical Frameworks For Assessing Enforceability of a Forum Selection Clause**

An analytical framework, under which mandatory forum selection clauses are

---

6 The court also held that a passive **website** could not possibly create general jurisdiction. *Id.* at 1303.

7 The former employee, as well as moving to dismiss for lack of personal jurisdiction, moved to transfer venue, arguing the first-filed rule under which a federal court in a later filed case may refuse to hear the case if the issues raised by a first filed related case pending before another federal court substantially overlap. However, the other forum -- the Northern District of Texas -- had dismissed the employee's declaratory judgment action there, mooting the issue. *Id.*

---
presumptively enforceable, was developed in *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1 (1970), an admiralty case which involved a towage contract’s forum selection clause electing London courts as the exclusive forum for disputes. This seminal case upheld mandatory forum selection clauses as generally binding on the parties unless the party which seeks to escape the clause meets the “heavy” burden of showing enforcement would be unreasonable, unfair or unjust.8 Under this framework, a court:

(i) determines whether the forum selection clause is mandatory, that is, exclusive, and whether the dispute falls within the scope of the mandatory clause, which raises a presumption of enforceability; and

(ii) determines whether the presumption of enforceability has been rebutted as unreasonable and unjust because the clause was invalid for fraud or overreaching or overweening, or because enforcement would contravene a strong public policy of the forum in which the suit is brought, whether declared by statute or by judicial decision, or because trial in the contractual forum will be so “gravely difficult and inconvenient that he will for all practical purposes be deprived of his day in court.”

This analytical framework continues to be recited and used, including in cases involving disputes over restrictive covenants, when determining whether to give effect to a contractual forum selection clause. Still, some jurisdictions take a different approach: for example, in *Ayco Co., L.P. v. Frisch*, 795 F. Supp. 2d 193, 200-201 (N.D. NY 2011), the court observed that New York courts follow the “substantial relationship” test, under which the court “will honor the parties’ choice of forum in a contract unless: (1) the chosen state has no substantial relationship to the parties; or (2) applying the law of the chosen state would contravene a fundamental policy of a state that has a materially greater interest than does the chosen state.9

Contrarily, on a motion to transfer in federal court under 28 U.S.C. §1404(a), §1404(a) itself governs whether to give effect to a forum selection clause and transfer an action to the

---

8 The *M/S Bremen* Court acknowledged forum selection clauses historically had not been favored by American courts and that many federal and state courts historically had not enforced them as “contrary to public policy,” or as “oust[ing] the jurisdiction of the court. *M/S Bremen*, 407 U.S. at 6-7, 12. The Court, however, departed from the historical view and adopted the then emerging view that such clauses were *prima facie* valid and should be enforced unless enforcement is shown by the resisting party to be “unreasonable” under the circumstances, reasoning: “it is settled . . . that parties to a contract may agree in advance to submit to the jurisdiction of a given court, to permit notice to be served by the opposing party, or even to waive notice altogether.” *Id.* at 1913-1914 (citations omitted).

9 The court was sitting in diversity and applied the law of New York, the state in which the court sits, to determining the enforceability of the forum selection clause. *Id.* Other federal courts have applied federal law as venue is a procedural issue. See *Perry v. AT&T Mobility LLC et al.*, 2011 U.S. Dist. LEXIS 102334, *4* (N.D. Ca. 2011) (the Ninth Circuit applies federal law in the context of venue to determine both enforcement and interpretation of a forum selection clause). Other courts have not taken a definitive position on what law, federal or state, applies as forum selection clauses involve substantive law of contracts as well as procedural law of venue. See *C.H. Robinson Worldwide v. Rodriguez et al*, 2012 U.S. Dist. LEXIS 146974, *10-11* (D. Minn. 2012)(Eighth Circuit had not taken a definitive position but it did not matter because the state also followed the federal analytical approach). Personal jurisdiction, in diversity cases, however, should be determined by the law of the state in which the court sits.
venue provided in the forum selection clause. The court’s analysis on a §1404(a) motion to transfer should focus on §1404(a)’s factors, one of which explicitly is a forum selection clause. Stewart Organization, Inc. et al v. Ricoh Corp. et al, 487 U.S. 22 (1988). While §1404(a) supersedes M/S Bremen to this extent on a motion to transfer under §1404(a), Bremen’s analysis “remains instructive.”

Id. at 28-29. The presence of the forum selection clause “figures centrally under §1404(a),” but is “neither dispositive” nor is it to be given no consideration; rather, the clause is to be accorded “the consideration Congress provided for it under 1404(a).” Id. at 32-33. Factors under 1404(a) include: the identity of the law which governs construction of the contract, the place of execution of the contract(s), the place where the transactions have been or are to be performed, the availability of remedies in the designated forum, the public policy of the initial forum state, the location of the parties, the convenience of prospective witnesses, and the accessibility of evidence, the relative bargaining power of the parties, and the circumstances surrounding their dealings, the presence or absence of fraud, undue influence or other extenuating (or exacerbating) circumstances; and the conduct of the parties.12

A. Careful Drafting is Crucial

Courts scrutinize whether the specific language of a forum selection clause is exclusive, and therefore mandatory, not permissive, and whether the language encompasses the particular claims raised. A lack of clarity or ambiguity in the language of a forum selection clause or resulting from coterminous, inconsistent agreements weighs against finding forum selection to be mandatory. A well drafted clause includes exclusive language and an express waiver of objections to personal jurisdiction and to venue, and is not inconsistent with clauses in other agreements that may be part and parcel of the relationship between the parties.

The distinction between mandatory and permissive is deceptively simple: a clause that contains “clear language showing that jurisdiction is appropriate only in the designated forum” is a mandatory clause.13


---

10 §1404(a) provides: “for the convenience of the parties and witnesses, in the interest of justice, a district may transfer any civil action to any other district where it might have been brought or any district to which the parties have consented.”

11 In Stewart, a forum selection clause in a dealership contract provided “any appropriate state or federal district court” located in Manhattan would have “exclusive jurisdiction over any case or controversy arising under” a dealership contract. The district court denied a motion to transfer, refusing to enforce the forum selection clause based in part on its conclusion that the applicable law, Alabama law, deemed such forum selection clauses contrary to public policy. The Eleventh Circuit on interlocutory appeal, on rehearing en banc, reversed, concluding such clauses are enforceable generally as a matter of federal law, ruling that in a diversity action.

12 See, e.g., Earvision, Inc. v. Wyman, 2012 U.S. Dist. LEXIS 76205, *16-17 (D.R.I. 2012)(the convenience factors presented a close call", but the challenging party did not meet the burden of establishing that the ‘totality of the circumstances’ required the court to negate the forum selection clause and transfer the action, particularly given the presumption entitling a plaintiff to its choice of forum and the additional presumptive weight because the parties agreed to jurisdiction and venue in Rhode Island to resolve a dispute over the non-compete: the challenging party had “essentially bargained away the right to complain about the burdens of litigating” in the contractually agreed forum and could not meet the burden of establishing that the §1404(a) factors on balance overcame the contractual considerations and mandated transfer.

13 However, the analysis of the language of a forum selection clause in practice may be influenced by or conflated with judgments as to which forum has a greater interest in the dispute. The Delaware Non-Complete Law Blog, www.delawarenoncompletelawblog .com, reports on a Delaware Chancery Court decision, in Georgia Pacific Consumer Products LP v. Jadczak, CA 6695-VCL (unpublished), in which an employer sued in Delaware to enjoin a former employee who had worked in Georgia and accepted a job in Kentucky with a competitor from violating
In Adams Torres, the clause, which provided that the parties “shall file any suit . . . only in federal or state court” in Pennsylvania, was unambiguous and made Pennsylvania the mandatory forum. The claims fell within the scope of the forum selection clause, because the clause applied to “any disputes” between the former employee and the distributor. *Id.*

Incongruity within agreements, particularly as to forum selection provisions, may lead the court not to apply the forum selection clause. In *Stuart v. Marshfield Door Systems, Inc.*, 2012 U.S. Dist. LEXIS 33916 (D. Colo. 2012), the plaintiff and a business partner sold a company, agreeing to stay on with the purchaser and sign a separate employment agreement. A non-competition clause in the Asset Purchase Agreement stipulated that Delaware law, where the purchaser was incorporated, would govern, that “any dispute, controversy or claim arising out of or relating to” the APA would be settled through arbitration in Chicago, IL” and “any dispute not able to be settled through arbitration would then be settled in an applicable court in Chicago.” *Id.* at *2. The same day as executing the APA, the plaintiff signed an employment agreement with a largely identical non-competition clause. However, it provided that all disputes “arising out of or related to” the employment agreement were to be resolved in a court trial without jury. *Id.* at *3.

The employment agreement included a merger clause under which it superseded prior and contemporaneous discussions, agreements and understandings relating to employment. *Id.* When the plaintiff left for a competitor and sued in federal court in Denver, seeking a declaration that the non-compete was unenforceable and an injunction from interference with his employment, the purchaser/employer requested arbitration, sued in federal court in Chicago for an order for arbitration and for an injunction barring plaintiff from working at the competitor, and moved to dismiss the Colorado action on grounds of improper venue under the forum selection clause in the APA and to transfer under forum non conveniens. The federal court in Colorado denied the motions, determining the employment agreement was a “stand alone contract with no forum selection clause” and governed the employment relationship; under the merger clause, the employment agreement superseded inconsistent provisions in the APA. The employment agreement required a court trial and therefore stood not governed by the APA arbitration clause; without a forum selection clause, suit could be brought outside of Chicago.14 *Id.* at 6-8.

### B. Public Policy against Restraints of Trade

Public policy arguments often take center stage in the case of disputes involving validity and enforceability of restrictive covenants, but may not succeed in defeating a forum selection restrictive covenants in his employment agreement. A personal jurisdiction consent clause in the contract, which provided, “[e]mployee consents to and waives any objection to personal jurisdiction and venue in any federal and state courts having jurisdiction in any dispute arising out of the terms of this agreement” was found to be over broad: the clause permitted the employee to be sued anywhere in the United States. Although the former employer was a national company whose financial interests could be impacted in any state, the court granted the motion to dismiss. The second use of the word, “jurisdiction,” made the clause ambiguous. The overly general clause gave insufficient notice of where the employee could be sued and was so broad as to be unreasonable because the language encompassed any place that had federal and state courts, including those outside the United States. Out of comity, the Delaware court hesitated to impose its will where other states had a much stronger interest in the outcome of the case and Delaware did not have significant interest in the outcome compared to Georgia and Kentucky’s paramount interests.

14 The court rejected the argument that the employment contract was incorporated into and became part of the APA, even though an unsigned copy was attached to the APA and incorporated by reference. *Id.*
clause. Of course, unsurprisingly, some courts in states with a fundamental or strong public policy against restraints on trade have rejected enforcement of a forum selection clause designed to circumvent that state's public policy against restraints. Yet, others reject easy application of the "state public policy trumps all" banner.

In *Beilfuss v. Huffy Corp.*, 274 Wis. 2d 500, 2004 Wisc. App. LEXIS 408 (Ct. App. 2004), the court determined that enforcing a choice of law and forum selection clause choosing Ohio would have violated Wisconsin’s policy. The court rejected the argument that the forum selection clause was ambiguous -- use of the phrases "irrevocably submit(s)," or "irrevocably agrees," and "irrevocably waives" overcame any suggestion that the word "may" created a patent ambiguity -- and the court was not convinced the clause possessed “a certain quantum of procedural plus a certain quantum of substantive unconscionability”, particularly as “it is not unreasonable for a large multinational corporation to draft an employment contract requiring litigation to take place in its home state.” *Id.* at 505. The court then debated “the classic conundrum: should it “construe each clause separately and, if so, in what order? Or, should we construe the clauses together?” *Id.* at 506. To determine validity of the choice of law provision, the court must “pay close attention to public policy considerations” and the validity of the choice of law provision” as a precondition to determining the enforceability of the forum selection provision.” *Id.* In the end, the court simply determined that the state's important public policy considerations “trump a choice of law provision selecting a foreign jurisdiction's law as controlling.” *Id.* at 506-07.

In general, in Wisconsin, “statutes or common law which make a particular type of contract enforceable, e.g., usury laws, or which make a particular contract provision unenforceable, e.g., laws prohibiting covenants not to compete, or that are designed to protect a weaker party against the unfair exercise of superior bargaining power by another party, are likely to embody an important state public policy.” *Id.* at 507-08. Wisconsin, by statute, makes it the state’s public policy that "any … restrictive covenant imposing an unreasonable restraint is illegal, void and unenforceable even as to so much of the covenant … as would be a reasonable restraint" while Ohio law “permits selective enforcement or judicial modification of an unreasonable covenant not to compete so as to enforce the covenant deemed reasonable.” *Id.* at 508-09. So, the court held the choice of law provision violated the state’s public policy and was not enforceable, and then, because the choice of law provision was invalid, the court concluded that enforcement of the forum selection provision would be unreasonable. *Id.* at 509. In doing so, the court added that a “very practical reason why enforcement is unreasonable”: “It is logical to have a court familiar with Wisconsin's statutory and common law covering covenants not to compete apply the law rather than a court in another forum, which is unfamiliar with Wisconsin's law or public policy supporting the law.”*Id.* at 510.

---

15 The *Beilfuss* Court was not applying *M/S Bremen* as a primary analytical framework; however, it referenced and relied on *M/S Bremen’s* analysis to support its conclusion that forum selection clauses which violate the state’s public policy are unenforceable. *Id.*

16 In *Martin v. Stassen Insurance Agency*, 2008 Wisc. App. LEXIS 995 (Wis. App. 2008)(unpublished opinion), in which the plaintiff had not been living and performing the agreement at issue in Wisconsin, the court reached a different conclusion. In *Martin*, the court upheld a non-compete agreement’s choice of law and forum selection clauses directing litigation in Illinois under Illinois law where a former insurance agent was hired in Illinois by an Illinois based employer under an employment agreement requiring all litigation be brought in a specific Illinois
Georgia courts also will refuse to enforce a forum selection clause as contravening public policy of Georgia if the resisting party shows not only that the restrictive covenants violated Georgia public policy but also that the other court would likely enforce the covenants. *Crump Insurance Services v. All Risks, Ltd.*, 727 S.E.2d 131, 134, Ga. App. LEXIS 352, *7* (Ga App. 2012) (Georgia required a showing not only that the restrictive covenants violated Georgia public policy but also that the Maryland court would likely enforce the covenants, and as it was not shown that proceedings in a Maryland court would “likely produce a result that offends the public policy of Georgia. Absent such a showing, no compelling reason appears to avoid the forum selection clause.”)\(^{17}\) *See also Bunker Hill Int’l Ltd. v. Nation Builder Ins. Servs., Inc.* 710 S.E.2d 662, 665; 2011 Ga. App. LEXIS 376, *6* (Ga. App. 2011)\(^{18}\) Other courts apply forum selection clauses despite potentially outcome determinative differences in laws; *In re Autonation, Inc.*, 228 S.W.3d 663, 670; 2007 Tex. LEXIS 604, *20* (Tex. 2007)(the Texas Supreme Court refused “to presume to tell the forty-nine other states that they cannot hear a non-compete case involving a Texas resident employee and decide what law applies, particularly where the parties voluntarily agree to litigate enforceability disputes there and not here).\(^{19}\)

California federal courts, in recent cases, have respected a mandatory contractual choice of a forum in which enforcement of the restrictive covenants might be the outcome of dismissing or transferring a case, or staying proceedings, despite arguments that enforcement of the clause contravened California’s strong public policy against non-competition clauses or that trial in the contractual forum would be so gravely difficult and inconvenient for the complaining party that

\(^{17}\) In *Crump*, former employees of a Maryland insurance brokerage in Georgia had executed employment agreements with restrictive covenants and with a forum selection clause required venue in Massachusetts court and application of Massachusetts law. When the former employees resigned and went to work for a new employer, the former employee and new employer filed declaratory judgment actions in Georgia Court, and both trial courts dismissed the suits based on the forum selection clause. The Georgia Court of Appeals affirmed dismissal of declaratory judgment action based on the forum selection clause. On appeal, they argued that the restrictive covenants were unenforceable under Georgia law, and the court should not have enforced the forum selection clauses as the Maryland courts were likely to enforce the covenants. *Id.*

\(^{18}\)As Georgia recently amended its statute, becoming somewhat more friendly to restrictive covenants, but the statute is non-retroactive, a unique question arises as to what rule reflects the fundamental Georgia policy with respect to restrictive covenants when considering forum selection or choice of law clauses alleged to contravene Georgia public policy. *Becham v. Synthes (USA)*, 2011 U.S. Dist. LEXIS 103841, *17* (applied old Georgia policies in its conflict of law analysis, rejecting a Pennsylvania choice of provision as contravening Georgia public policy), *aff’d*, 2012 U.S. App. LEXIS 11225 (11th Cir. 2012)(concluding that Georgia fundamental public policy was not changed).

\(^{19}\) Former employee who lived and had worked for a Florida Corporation in Texas filed a Texas state court declaratory judgment action to have a non-compete declared unenforceable under Texas law, and to prevent an earlier filed suit by the Florida corporation in Broward County, Florida from going forward, arguing the Florida court would apply Florida law in violation of Texas public policy. Broward County was the forum mandated by a forum selection clause. At the time, Texas was relatively hostile toward restrictive covenants. Nevertheless, the Texas Supreme Court reversed the Texas appellate court, which had affirmed the trial court decision to enjoin the Florida corporation from taking further legal action outside of Texas: the unless the forum selection clause was procured through overreaching, it was enforceable. The court noted that Florida had an interest in the dispute because the former employer was headquartered there. *Id.*
he would be deprived of his day in court.

In Mahoney v. DePuy Orthopaedics, Inc., 2007 U.S. Dist. LEXIS 85856 (E.D. Cal. 2007), a declaratory judgment action brought by a former employee against his former employer sought an injunction prohibiting DePuy from enforcing a non-competition clause and a declaration that the non-competition clause was void. The case was removed to federal court based on basis of diversity, the former employer moved to dismiss under F.R.C.P. 12(b)(3) based on violation of a forum selection clause. The choice of law and forum selection clause read:

We both agree that Indiana law shall govern and interpret this appointment and the relationship between the parties, that any and all jurisdiction and/or venue for any claims or matters related to or arising from this Agreement shall be [sic] reside in the state and/or federal courts located in the state of Indiana.

The Agreement was executed and performed in California, all acts relevant to this dispute occurred in California, all witnesses to the relevant acts were in California, former employee had never been to Indiana. Opposing dismissal, the former employee argued the clause was contrary to the strong California public policy against contractual provisions that restrain competition, that California courts routinely apply California law when dealing with non-competition clauses, even if a contractual choice of law provision adopts another state’s law, that such covenants may be enforced under Indiana law under certain circumstances even though Indiana law also does not favor restrictive covenants, and the forum selection clause should not be enforced given that California law applies to interpretation of the Agreement and California has a strong public policy against competition restricting covenants. Id. at *17-18.

The Mahoney court granted the motion to dismiss: federal courts sitting in diversity apply federal law to determine the effect and scope of a forum selection clause, and "[t]he rule set forth by the Supreme Court in M/S Bremen v. Zapata Off-Shore Co controls the consideration of a motion to dismiss for improper venue based upon a forum selection clause." Id. at 20-21. The

---

20 The Court was not persuaded by arguments that all but one of the nine considerations for deciding a forum non conveniens motion weighed in favor of California as the more convenient venue and that the former employee would move under §1404 move to transfer the case back to California, resulting in unnecessary expenditures of judicial resources. The Ninth Circuit had “rejected reliance on the traditional forum non conveniens balancing test when deciding whether to enforce a forum selection clause,” and while “the hardship caused to a litigant from enforcing a forum selection clause” is to be considered, there was “no evidence regarding any hardships or inconveniences from litigating in Indiana, let alone hardships that would deprive him of his day in court.” Lastly, were a motion to transfer under 1404(a) to be filed subsequently in the Northern District of Indiana, it was “speculative what the Indiana court may do,” “whether the Indiana court would grant” such a motion, whether California law applied or whether Indiana lacked ties to the dispute. In short, Mahoney had not shown that he would “be deprived of his day in court if forced to litigate in Indiana. Id. at 25-26.

21 The Court further rejected forum non conveniens factors as grounds for denying the motion to dismiss “because of the greater burden of showing that enforcement of a forum selection clause would effectively deprive a party of his day in court, reliance on a traditional forum non conveniens balancing analysis will not be persuasive. Id. at 21-22. The Court also rejected the assertion that the forum selection clause was a “bad faith tactic to discourage litigation,” since the former employer was “aware of California's contrary law regarding noncompetition clauses,” such that enforcing the forum selection clause “fundamentally unfair”: there was “no evidence” to support it, the former employer was incorporated and had its principal place of business in Indiana, and the largest concentration of its employees was in Indiana, making it “neither surprising nor unreasonable that [the former employer] prefers and contracts to be sued in Indiana.” Id. at 17-18, 24-25.
Court was not persuaded by the argument that enforcing the forum selection clause would violate California's strong public policy against non-competition clauses because instead of “directly address[ing] the forum selection clause itself,” the former employee “speculate[d] as to how an Indiana court may or may not rule on the Agreement's choice of law clause and covenant not to compete.” This was an “indirect attack on a forum selection clause” that has been rejected by courts: "[t]he forum selection clause determines where the case will be heard. It is separate and distinct from choice of law provisions that are not before the court." Id. at 23-24 (citations omitted). The "question" was “not whether the application of the forum's law would violate the policy of the other party's state, but rather, whether enforcement of the forum selection agreement would violate the policy of the other party's state as to the forum for litigation of the dispute.” Id. There was no indication that Indiana courts will not or cannot entertain the choice of law arguments or that they would not apply California law if it were determined to govern. 22 Id. at 28-29.

Similarly, the federal court in Swenson v. T-Mobile USA Inc.,23 415 F. Supp. 2d 1101, 1104-05 (S.D. Cal. 2006) found California was an improper venue and dismissed the action, rejecting the argument that California’s public policy against enforcing restraints on trade, which is reflected in §16600, rebutted the enforceability of a mandatory forum selection clause in an employment agreement with a non-competition provision.24 The “question is not whether the application of the forum's law would violate the policy of the other party's state, but rather, whether enforcement of the forum selection agreement would violate the policy of the other party's state as to the forum for litigation of the dispute.” Id. at 1104-05. Here, enforcement of the forum selection clause did contravene a California policy as to forum, as both forums used the same rule to enforce these forum selection clauses.25 “[F]orum selection clauses would be

22 While the district court has the discretion to dismiss the case or transfer the case, if it is in the interests of justice, to an appropriate jurisdiction under 28 U.S.C. § 1406(a), the Court concluded that the former employee’s motion “in the main requests dismissal;” there did not “appear to be any statute of limitations issue” and the former employee did not argue for transferring the case or argue that the interests of justice required transfer. “In light of” this, the Court dismissed this case without prejudice to refiling in a state or federal court in Indiana. Id. at 28-29.
23 There was no claim of fraud or undue influence or overwhelming bargaining power as the former employee was a high ranking and very highly paid executive. Id. at 1104.
24 One unpublished California state court decision relied on Swenson to find that California’s public policy against restraints of trade did not cause a mandatory forum selection clause in an agreement including a covenant not the compete to be unenforceable: the argument that upholding a forum selection clause conflicts with §16600’s policy “‘cleverly, but impossibly combine[s] the forum selection clause and choice of law analysis’ . . . ‘The question is not whether the application of the forum’s law would violated the policy of the other party’s state, but rather, whether enforcement of the forum selection agreement would violate the public policy of the other party’s state as to the forum for litigation of the dispute.’” Troisi v. Cannon Equipment Co. et al., 2010 Cal. App. Unpub. LEXIS 3926, *13-14 (Ca. App. 2010)(not citable under California Rule of Court), citing, Swenson at 1105. The Troisi court found Swenson “persuasive, based both on the facts and the legal principles.” Id. at *15. However, if the case were citable, the facts arguably are narrow as the other forum had already rendered a ruling on the enforceability of the clause. Id. at 16-17. The plaintiff had made the same claim against enforcing the clause in a parallel Minnesota action and had been unsuccessful: “In a reasoned and detailed analysis the Minnesota district court determined the forum selection clause was enforceable because Minnesota was not an unreasonable location, given plaintiff’s contacts with the state, his knowledge the clause was in the contract, and the minor inconvenience to the parties and witnesses” and the agreement was “not adhesive” or “itself unreasonable.” The court observed that a court will “usually honor” a mandatory forum selection clause without extensive analysis of forum non conveniens factors. Id.
25 In Swenson, a California resident and former high ranking executive of a Delaware Corporation with a principal place of business in Washington filed in California to have non-compete provisions included in several documents
largely meaningless” otherwise “as it would depend on who filed first and whether that forum's law was more favorable to them.” Id. The Court acknowledged that a Washington court's application of Washington law to the matter “arguably led to a result conflicting with the provisions of §16600,” but the former executive “was free to, and in fact, did argue for the application of California law” in Washington state court. That the Washington court ruling resulted in an unfavorable decision “does not mandate a finding that the clause requiring the case be litigated in Washington is invalid . . . the Washington court could have applied California law if it found application appropriate” and “dutifully considered whether to apply Washington or California law” based on each state's choice of law standards. Id.

Likewise, Google, Inc. v. Kai-fu Lee, 415 F. Supp. 2d 1018, *1022-23, 25 (N.D. Ca. 2005) involved a limited covenant not to compete, a Washington choice of law and a mandatory Washington state court forum selection clause, and parallel proceedings in the federal court in California federal and Washington state court. The court stayed the proceedings in California pending the outcome of the first filed Washington state case: “The flaw in [the] argument is that Google and Lee fail to explain why they cannot ask the Washington state court to apply California law.” The court observed that both states “apply the Restatement (Second) of Conflict of Laws §187 . . . to determine whether choice of law provisions are valid” and this provision enables choice of law provisions to be disregarded contrary to a fundamental policy of a state which has a “materially greater interest” than the chosen state and which “would be the state of the applicable law in the absence of an effective choice of law by the parties,” and “there is no meaningful difference between this case and the Washington state proceeding.” “Because the two cases are ‘parallel,’ this court declines to declare the rights and other legal relations of the parties pending the outcome in the Washington state court.” Id. at 1025-26.

As a practical matter, whether the forum selection clause ends up unenforceable in the face of such public policy may depend on the forum analyzing the issue and on the relative contacts of the parties to the different forum states: the forum’s relative interests in resolving the dispute and determination of what law to use to analyze the effect of a forum selection clause (and so, in some cases, whether to enforce a choice of law clause in the agreement at issue) may affect whether the forum selection clause applies or not. In Optos, Inc. v. Topcon Med. Sys, 777 F. Supp. 2d 217 (D. Mass 2011), a federal district court in Massachusetts applying Massachusetts law under a choice of law clause rejected the argument that California’s fundamental policy voiding restraints on trade was contravened and invalidated a contractual consent to personal jurisdiction in Massachusetts. The Optos court opined that California law did not require that the clause consenting to jurisdiction in Massachusetts be voided, even if the non-solicitation clause in the contract were invalid under California law: although it is plausible that a non-solicitation clause could be interpreted as a restraint from engaging in a lawful profession, it did not follow declared void so that Swenson could work for a California competitor. Alleging breach of contract and misappropriation of trade secrets, the former employer filed first in Washington state court to enforce the non-compete provisions in the employment agreements, which had a Washington forum selection clause and sought and obtained a TRO and Preliminary Injunction enjoining the former executive from violating the non-compete clauses. The Washington court determined that Washington, not California law applied, and Washington law permitted use of reasonable non-compete agreements to protect an employer's confidential information and trade secrets. Plaintiff filed a declaratory relief action in state court in California for a declaration that the non-compete provisions of her employment agreements are subject to California law and violate the express terms of California Business and Professional Code §16600.
that an acknowledgment of personal jurisdiction created such restraint; and a severability clause in the contract was an agreement amongst the parties that some of the clauses, such as the jurisdictional acknowledgment, should survive even if other clauses, such as the non-solicitation clause, are invalidated. *Id.* at 228-231.

Before finding the former employee’s contractual jurisdictional consent[^26] binding on the former employee in *Optos*, the court decided to honor the contract’s Massachusetts choice of law clause and to reject the employee’s arguments in favor of California substantive law, predominantly by asking whether enforcement violated any fundamental California policy relating to the jurisdictional consent clause rather than California’s recognized fundamental policy against restraint of trade. *Id.* Sitting in diversity, the court applied the choice of law analysis of the state in which it sat: Massachusetts courts honor a choice-of-law clause unless doing so would be contrary to a fundamental policy of a state which has a materially greater interest than the chosen state in the determining the particular issue and which also would be the state whose law would be applicable absent an effective choice of law by the parties. The former employee and his new employer argued that honoring the choice of law clause would be contrary to California’s fundamental policy in §16600 of the California Business and Professional Code: "[e]very contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." The court disagreed that honoring the clause would contravene a fundamental policy of California:

- Non-disclosure and non-solicitation, which the dispute involved, are significantly less restrictive than non-competition provisions, which were not in the contract at issue.
- California's fundamental policy does not extend to clauses designed to protect a trade secret.
- Even if the restrictive covenant clauses at issue were contrary to California's fundamental policy and not within the trade secrets exception, the motion to dismiss turned on the employee’s consent subjecting himself to personal jurisdiction of Massachusetts courts, not the non-disclosure and non-solicitation provisions, and applying the contract’s personal jurisdiction clause would not be contrary to California's fundamental policy.

Regardless of whether California's interest as to the non-solicitation and nondisclosure clauses outweighed Massachusetts' interest, there was no reason to believe that California's interest in the jurisdictional clause would outweigh Massachusetts' significant interest in exercising jurisdiction as both the former employer and employee consented to jurisdiction by Massachusetts and the former employee allegedly breached a contract and violated statutory and tort law at the expense of a Massachusetts corporation. *Id.* Finally, absent a choice of law agreement, California still may not have been the applicable law under Massachusetts’ functional choice-of-law approach, which responds to the interests of the parties, the states involved, and

[^26]: In *Optos*, a nonresident former sales account manager was accused by his former employer, a Massachusetts manufacturer, of violating a non-disclosure and non-solicitation agreement by using confidential customer lists to help a competitor steal customers. The contract contained an agreement by the employee -- "I am subject to the personal jurisdiction of the Massachusetts courts" -- and a Massachusetts choice of law provision.
After determining Massachusetts law applied, the *Optos* court found personal jurisdiction over the former employee based upon his contractual consent to jurisdiction, citing *M/S Bremen*: “"parties to a contract may agree in advance to submit to the jurisdiction of a given court' . . . and absent some compelling and countervailing reason [the agreement] should be honored by the parties and enforced by the courts." *Id.* at 228. The court found that the consent clause valid and enforceable and binding on the former employee, who therefore was subject to the court's jurisdiction. The court rejected arguments that it was "unreasonable or unfair," which Massachusetts defined as "adhesive" or something akin to "unthinkable," to enforce the consent clause given the lengthy and repeated discussion in the contract of trade secrets, as the former employee could expect an action based on misappropriation of trade secrets to be litigated in Massachusetts.*Id.* at 231.

C. Public Policies against Forum Shopping

Prevention of forum shopping was rejected as a public policy rebutting the presumption of enforceability of a mandatory forum selection clause in *In re George Boehme et al. v. Forbendnow, Inc.* 256 S.W.3d 878, 881-82 (Tex. App. 2008). Although Texas has recognized a strong public policy against forum shopping, the Texas appellate court found this policy was not contravened by applying a forum selection clause selecting a non-Texas forum. Attorneys can make “a legitimate decision as to two forums in which his client’s case might be heard” and “should -- to some extent -- prefer the forum that presents his client with the best chance of success. While abusing the legal process through improper forum shipping may be sanctioned...” *Id.* at 883. The party before the court did no more than participate in limited discovery and defended against the TRO his opponent sought, and the trial court could not have concluded invoking the forum selection clause subsequently was an abuse of legal process. *Id.* at 883-83. The court, however, did not rule out the possibility that Texas’s public policy against forum shopping might be contravened by enforcing a forum selection clause under other facts.*Id.*

---

27 The court in *Roll Sys. v. Shupe*, 1998 U.S. Dist. LEXIS 3142, *5-8* (D. Mass 1998) reached the opposite conclusion, and did not honor a Massachusetts choice of law clause. California courts have held §16600 represents a strong public policy overriding a contractual choice of law provision at least as to enforcement of a restrictive covenant. California has a materially greater interest in resolving this dispute as the former employee is a California resident working out of California who continues to work and live in California, and the contract was not performed in Massachusetts, substantially decreasing Massachusetts’ interest in having its laws govern. California law would apply absent a choice-of-law provision. *See also EMC Corp. v. Donatelli*, 25 Mass. L. Rep. 399 (Mass. Sup. 2009) (where the former employer was based in Massachusetts, a resident of and domiciled in Massachusetts, entered the contract in Massachusetts, and had worked for the former employer in Massachusetts for 21 years and performed under the contract for seven years, California did not have a materially greater interest in the dispute than did Massachusetts and the argument that California law should apply as the former employee intended to work in California was unavailing even if a California court later might refuse to enforce the injunction).

28 Nor was the agreement as a whole void for lack of consideration: on top of continued employment (which alone could suffice to support non-competition or other restrictive covenants in Massachusetts), the contract promised the employee "access to confidential and proprietary information belonging to the company." *Id.*

29 In *Forbendnow, Inc.*, a relator and his corporate alter egos asked for writ of mandamus to require a Texas lower court to enforce a contractual forum selection clause by dismissing the suit in Texas. The relator had sold a group of newspapers, and the agreement included a non-competition covenant in which the relator was not to operate or fund a newspaper and/or a local advertising based publication and could not solicit or retain buyer’s employees. The
D. Grave Inconvenience Depriving One of Day in Court

To be rebutted under *M/S Bremen*, the mandatory forum selection clause must make it impossible for the plaintiff to sue, not merely inconvenient: one must show trial in the contractual forum would be “so gravely difficult and inconvenient for him that he would for all practical purposes be deprived of his day in court.” *Adam Torres v. SOH Distribution Company, Inc.*, 2010 U.S. Dist. LEXIS 474448, at *12-13 (expenses of litigation in a distant forum are insufficient to show the “grave inconvenience” needed to invalidate the forum selection clause); *C.H. Robinson Worldwide v. Roriguez et al.*, 2012 U.S. Dist. LEXIS at *14. Generally or generically, arguing unreasonableness or unjustness based on inconvenience, distance, cost, or even outcome effecting differences on the laws in different forums ordinarily will not suffice to rebut the presumption.

Notwithstanding a valid mandatory forum selection clause, some courts may not enforce the clauses over nonresidents otherwise lacking in minimum contacts sufficient to establish personal jurisdiction absent the clause, or if venue is clearly more convenient in a forum other than the one selected in the forum selection clause. This determination, as a practical matter, relies on the parties' (and the dispute’s) relative contacts to the forums. *Colemont Insurance Brokers of Connecticut, LLC v. Mary Bryne et al.*, 2008 Conn. Super. LEXIS 505, *5-6 (Conn. Sup. 2008)* (unreported decision and subject to further review)(enforcement of the forum selection clause, which selected Texas as the forum, was unreasonable and unjust in a case involving enforceability of a non-interference period as all the parties were present in Connecticut, the most significant witnesses were in Connecticut, and the alleged tortious conduct occurred in Connecticut; “[m]ost importantly,” the second defendant was located in Connecticut and would not be amenable to suit in Texas, which was the forum under the clause, thus depriving the plaintiff of its cause of action and effective remedies against this defendant).30

---

30 The court also concluded the same result would be reached applying Texas law to determine the enforceability of the forum selection clause in the case: “[c]urrent Texas law embodies the same jurisprudential concerns and does not demand a different analysis or yield a different result. An otherwise valid forum selection clause would not bind a
E. Fraud, Overreaching, and Overweening bargaining power.

Alleging fraud as to the contract is not the same as alleging fraud in the inclusion of the forum selection clause; there must be a showing that the alleged fraud or misrepresentation induced the party opposing the forum selection clause to agree to its inclusion in the contract. See Setzer et al. v. Natixis Real Estate Capital, Inc. et al., 537 F. Supp. 2d 876, 879 (E.D. Ky. 2008). Absent evidence of a bad faith motive, disparity in bargaining power generally does not render a forum selection clause fundamentally unfair. Adams Torres at *10-11 (forum selection clause “preserve judicial and litigant resources by determining, ex ante, where suits must be brought and defended, and benefit consumers who enjoy lower prices ‘reflecting the saving that the [party with greater bargaining power] enjoys by limiting the fora in which it may be sued’”). Accordingly, attempts to escape enforcement of a forum selection clause by demonstrating unequal bargaining power or contracts of adhesion are uphill and not likely to succeed. C.H. Robinson Worldwide v. Roriguez et al, 2012 U.S. Dist. LEXIS at *12-14 (arguing the agreement was one of adhesion did not suffice).

However, in the context of an employment contract, some courts give consideration to “any power differentials which may exist between the two parties to the contract,” “the educational background of the party challenging the clause,” the “business expertise of the party challenging the clause,” and the “financial ability to bear” costs and inconvenience of litigating in the forum selected by the contract. Cf. Perry v. AT&T Mobility LLC et al., 2011 U.S. Dist. LEXIS 102334, *6 (N.D. Ca. 2011), citing, Murphy v. Schneider Nat’l, Inc., 362 F. 3d 1133, 1140-41 (9th Cir. 2004).

III. Forum Selection Clauses may be Enforceable by and Against Non-Signatories.

Courts have permitted non-signatories to enforce forum selection clauses and have applied forum selection clauses to non-signatories in narrowly circumscribed cases based on third party beneficiary or alter ego/veil piercing theories or on finding a sufficiently “close relationship” of the non-signatory to a signatory and the dispute arising under the contract such that the non-signatory could reasonably foresee enforcement of the clause by virtue of the relationship between the parties. This is rare, however. In East Coast Karate Studios, Inc. v. Lifestyle Marital Arts, 65 So. 3d 1127, 1128-29 (Fla. 4th DCA 2011), a former employer sought to enforce a mandatory forum selection clause against the former employee’s wife and new employer, neither of whom were signatories to the non-competition agreement. Florida courts enforced the contracts, including forum selection clauses, against non-signatories, where there existed a “close relationship” of the employee signatory, the non-signatory’s interests derived from the employee’s interests, and the claims involving the non-signatories directly arose out of the non-competition agreement. 32

Texas court ‘if the interests of witnesses and public policy strongly favored that the suit be maintained in a forum other than the one to which the parties had agreed.’” Id.

31 The forum selection clause was unenforceable in Perry, which involved wage and hour claims, as violating California’s strong public policy “that contractual schemes to avoid the California Labor Code will not be tolerated.”

32 The court was addressing venue, not personal jurisdiction. As noted previously, a forum selection clause alone is not a sufficient basis for personal jurisdiction under Florida law.
In *Medtronic Inc. v. Endologix, Inc.*, 530 F. Supp. 2d 1054, 1056 (D. Minn. 2008), the reach of a forum selection clause was extended to a new employer though the new employer was not a signatory to two former employee’s employment agreements, which contained a non-compete covenant. The forum selection clause provided that any disputes arising under the employment agreements had to be litigated in and decided by a Minnesota state court, and that employees could not assist or participate in any third party’s commencement or prosecution of a related lawsuit in any court other than Minnesota state court. When the employees went to a competitor, the former employer sued both the former employees and the new employer in Minnesota state court for inducing the employees to breach the non-compete covenants. The new employer removed the action to federal court on diversity grounds, filing affidavits from the former employees consenting to removal, without which the action could not be removed on diversity grounds. The former employer moved to remand, arguing the forum selection clause bound the new employer and that the employees had waived their ability to consent to removal. The new employer argued that the former employees only waived the right to remove, not the consent to another party’s removal, and that it was not bound because it was not a party to the employment agreement. The federal court remanded: the new employer, which hired the employees with knowledge of the non-compete covenants, was “closely related to the dispute such that it becomes foreseeable that it will be bound;” and the former employees waived the right to consent to removal because any disputes had to be “decided by” the state court as opposed to merely “litigated in” the state court, which could not occur if removed to federal court. *Id.* at 1056, 1958-59. As well, consenting to removal was participation in prosecution of the case in federal court, which they had agreed not to do. *Id.* at 1059.

In *Synthes, Inc. v. Emerge Med. Inc.*, 2012 U.S. Dist. LEXIS 115830 (E.D. Pa 2012), the court applied a forum selection clause to a non-signatory, denying a non-signatory’s motion to dismiss for lack of personal jurisdiction. Whether a non-signatory may be bound by a forum selection clause takes “a common sense, totality of the circumstances approach that essentially inquires whether, in light of those circumstances, it is fair and reasonable to bind a non-party to the forum selection clause,” emphasizing whether it should have been reasonably foreseeable to the non-signatory that situations might arise in which the non-signatory would become involved in the relevant contract dispute." *Id.* at 27-28. The non-signatory defendant should have foreseen becoming “embroiled in a contract dispute governed by the forum selection clauses” because he and the plaintiff’s former employees collaborated in direct violation of their Non-Competition Agreements against the interests of their former employer. *Id.* These former employees’ agreements had forum selection clauses:

> I agree that this agreement shall exclusively be enforced by any federal or state court of competent jurisdiction in the Commonwealth of Pennsylvania and hereby consent to the personal jurisdiction of these courts.

The court found that the close business relationships between the signatories and non-signatories to the pertinent agreements, together with the fact that the dispute among the parties centered on the interpretation of the agreements, provided a sufficient basis on which to apply the forum selection clauses to the non-signatory.33 *Id.* at *35, 41, 52. Personal jurisdiction existed

---

33 Defendants, including the non-signatory third party tortiously interfered with the former employee’s contractual relationships, and the court found the plaintiff had proven by a preponderance of the evidence that the third party
pursuant to the forum selection provisions: "Consent is an independent traditional basis for personal jurisdiction and thus precludes any need to engage in such an analysis of a defendant's contacts with the forum" and "[i]t is widely accepted that non-signatory third-parties who are closely related to [a] contractual relationship are bound by forum selection clauses contained in it."34 Id. at 24-25.

IV. Different Procedural Stances in which Courts Address Forum Selection Clauses

Forum selection clauses are raised in a myriad of ways: motions to dismiss for want of personal jurisdiction, or in response to such motions; motions to dismiss for improper venue or in motions to transfer venue under rules of civil procedure or forum non conveniens; motions to stay a parallel proceeding; or in motions to enjoin a party from pursuing litigation in another forum. Enforcement, and means of enforcement within the court’s procedural powers, for example, whether to dismiss an action for improper venue with leave to refile in the contractually selected forum or to transfer the case to the contractually selected forum, or to stay proceedings in one forum pending outcome on another, or to enjoin a party from moving forward in the non-contractually selected forum, all generally remain within a court’s discretion.

Federal courts favor transferring venue or staying proceedings rather than dismissing actions based on forum selection clauses. Where a forum selection clause renders venue improper a federal district court has the discretion to either dismiss the case or transfer it "to any district or division in which it could have been brought" if such transfer is "in the interest of justice." 28 U.S.C. §1406(a). The central inquiry in determining whether the "interest of justice" requires transfer rather than dismissal is the effect on the plaintiff. Adams Torres, 2010 U.S. Dist. LEXIS at *14-15. In Adams Torres, the court transferred rather than dismissed for improper venue because under the mandatory forum selection clause, venue properly lay only in the Middle District of Pennsylvania, and §1406 allowed a court to cure improper venue by transferring the action. Where venue would properly lie elsewhere, it "would serve no real purpose other than to add the additional expense of re-filing the case." Id. If transfer is in the interest of justice, the court still must find the transferee court has subject matter jurisdiction and that personal jurisdiction and venue are proper in the transferee court before transferring the case. Id. Notwithstanding a forum selection clause between the parties, the court when examining venue also examines whether inconvenience to witnesses, the situs of the dispute and

---

34 Personal jurisdiction may be based on either a defendant's contacts with the forum or on some form of consent to personal jurisdiction, which may take the form of a contractual forum selection clause. The Pennsylvania long arm statute was coincident with minimum contacts.
evidence, the forum’s relative interests in the dispute and case, and the interests of justice, weigh against transferring venue.

Under 28 U.S.C. §1404(a), “for the convenience of the parties and witnesses, in the interest of justice, a district may transfer any civil action to any other district where it might have been brought or any district to which the parties have consented.” §1404(a) governs a district court sitting in diversity as to whether to give effect to a forum selection clause and transfer an action to a venue provided in the clause, and the federal court’s analysis on a §1404(a) motion to transfer should focus on the factors under §1404(a), of which forum selection clauses are one factor. See, infra, at Section II.

Where transfer is not possible, however, and venue is improper, federal courts will dismiss the action. Peacock v. Ins. & Bonds Agency of Tex., PLLC, 2012 U.S. Dist. LEXIS 122102 (N.D. Tex. 2012) (The court dismissed the declaratory action regarding restrictive covenants in an employment agreement, which was added to an ADEA wrongful termination complaint, without prejudice to being refiled in the contractually exclusive state court forum of Bexar County, Texas: if the court transferred only the declaratory action, the case would consist of a state law claim with non-diverse parties, and the Western District of Texas would not have subject matter jurisdiction (as the ADEA claims did not fall within the forum selection clause’s purview) and could not remand to the state court sitting in Bexar County as the action was not filed in and removed from that state court in the first place; accordingly, the Court dismissed the action).

Additionally, the abstention doctrine may result in dismissal rather than transfer. In Swenson, 415 F. Supp. 2d at 1104-05 (S.D. Cal. 2006), where parallel litigation was pending in the Washington state forum provided in the employment agreement, the California federal district court concluded dismissal, and not transfer to federal court in Washington, was “the proper course”: the U.S. Supreme Court has held that "'[o]rdinarily it would be uneconomical as well as vexatious for a federal court to proceed in a declaratory judgment suit where another suit is pending in a state court presenting the same issues, not governed by federal law, between the parties." Id., citing, Brillhart v. Excess Ins. Co. of Am., 316 U.S. 491 (1942)("when a party requests declaratory relief in federal court and a suit is pending in state court presenting the same state law issues, there exists a presumption that the entire suit should be heard in state court"). Id. at 1105-1106.

A court may not be able to enjoin parallel litigation or may be highly reluctant to enjoin parties from participating in parallel litigation in a sister state. In Advanced Bionics v. Medtronic, 29 Cal. 4th 697 (Cal. Sup. Ct. 2002), the California Supreme Court refused to uphold an attempt to stop parallel litigation in another state with an anti-suit injunction. When Medtronic, a Minnesota company, had hired its now former employee, as a condition of employment, the former employee had signed an employment agreement with a two year non-competition obligation and with a choice of law provision selecting the law of the last state in which he worked, which was Minnesota. He resigned and went to work for a direct competitor in California. He and his new employer filed an action in California state court for declaratory relief from the non-competition obligation, and two days later, Medtronic filed in Minnesota state court against both seeking a temporary restraining order, injunction and damages for violation of the non-competition clause. The Minnesota trial court issued a TRO and a
preliminary injunction, which the Minnesota appellate court upheld. Medtronic moved to stay the California suit, which the court denied. The new employer sought a TRO against Medtronic to prevent it from prosecuting the Minnesota action, and the California court granted this TRO. On appeal, the court upheld the TRO, deciding the non-competition obligation would be evaluated under California law notwithstanding the Minnesota choice of law provision. The California Supreme Court reversed and vacated the TRO. In deference to state sovereignty and comity, injunctions enjoining a party from participating in litigation in a sister state must be used sparingly and only under extraordinary circumstances. Id. at 705. The illegality of non-competes under California law did not supply the necessary exigency for issuing an anti-suit injunction: that parallel proceedings created possibility of conflicting or inconsistent judgments was not an extraordinary justification for an anti-suit TRO. Id. at 706-707.

However, in Medtronic, In. v. Advance Bionic Corp., 630 N.W.2d 438, 449-450 (Minn. Ct. App. 2001), the Minnesota Court of Appeals affirmed a state district court's injunction of a preemptive declaratory judgment action filed in a California state court, reasoning that when a party acts "in a calculated and systematic manner . . . to deprive the [Minnesota] court of its jurisdiction, issuing an injunction to stop the action in another jurisdiction is appropriate." The Minnesota Court of Appeals also determined that" when an anticipatory declaratory judgment action is brought for the purpose of denying the natural plaintiff of its choice of forum, the court need not and should not blindly defer to the other jurisdiction by applying the first-filed principle." Id.

Strategically, delays, for example stays of proceedings, alone can run the clock on restrictive covenants (which often are limited in time), mooting disputes over the covenants’ enforceability. In Staples v. Guardian Auto Glass LLC, 2012 U.S. Dist. LEXIS 83560, *8 (E.D. Va 2012), the former employer moved to dismiss or alternatively to stay the Virginia action filed by the former employee in federal court. The former employee argued that the employer through a parallel suit in Michigan pursuant to forum selection clause was seeking to “run out the clock” on the six month non-competition clause, effectively obtaining the benefit of the bargain. The Virginia federal court held the Michigan proceedings were unsurprising given the forum selection clause and the location of the former employers’ principal place of business (which was Michigan for the parent company and Ohio for the subsidiary for whom the employee had worked), denied the motion to dismiss and stayed the Virginia litigation, effectively prolonging the non-compete.)

---

35 A former employee who had left the former employer for whom he had worked in a company location in Virginia to work for a competitor, sued in Fairfax County, Virginia to declare a six month, 100 mile radius non-compete clause in his employment agreement unenforceable. The agreement had a forum selection clause, under which “any legal proceeding in connection with the enforcement of th[e] agreement may be brought in” Michigan courts, and a Michigan choice of law clause. The former employee filed the action after he received a cease and desist letter from the former employer stating that its “intention to immediately file an action in the courts of Michigan to enforce its rights” under the agreement. Later, that same day, the former employer filed an action in Oakland County Circuit Court in Michigan for injunctive relief and breach of contract, citing the forum selection clause, and the Michigan court ordered a show cause hearing. The new employer subsequently filed an action for declaratory relief in Michigan federal court, Virginia, mirroring the former employee’s action there. In the Michigan show cause hearing, after a hearing, the Michigan court entered a preliminary injunction ordering the former employee to comply with the non-compete covenant. The former employee removed the Michigan action to Michigan federal court and the former employer removed the Virginia actions to Virginia federal court. The Michigan action was also procedurally further
ARE GEOGRAPHIC LIMITATIONS IN RESTRICTIVE COVENANTS OBSOLETE?

As set forth below, it seems that three situations exist in which, even in the Internet age, a court remains likely to uphold a restrictive covenant with a national or global geographical limitation, or, alternately, no geographical limitation at all:

1. where the employee, either because of the large size of the company, or because technology like the Internet allowed a small company to reach a large geographical area, actually worked on a national or global scale;

2. where the employee may not have worked in a national or global scale, but the employee was highly-ranked enough at the company, or knew enough highly-sensitive information, that a broad geographical restriction stands warranted; or

3. where the scope of the restrictive covenant addresses only particular clients and/or products or services.

In this part of our paper, we set forth (a) the rule of reason test, which courts typically apply to determine if a restrictive covenant should be enforced; (b) the three scenarios, listed above, wherein the courts will most likely to permit a broad geographical restriction; (c) examples of cases where the court found the restrictive covenant overbroad (and could not be blue penciled); and (d) summaries of various decisions, by industry, wherein the court considered whether the facts merited a restrictive covenant with a broad geographic scope.

I. Restrictive Covenant Basics--When Are Restrictive Covenants Reasonable?

When assessing the reasonableness of a restrictive covenant, and, accordingly, whether to enforce it, a court will generally consider three criteria—namely, whether the restrictive covenant is (1) necessary; (2) reasonable as to (a) time, and (b) geography; and (3) not harsh or oppressive to the employee, or otherwise contrary to public policy. See, e.g., BDO Seidman v. Hirshberg, 93 N.Y.2d 382, 388-389 (1999) ("a restrictive covenant will only be subject to specific enforcement to the extent that it is reasonable in time and area, necessary to protect the employer's legitimate interests, not harmful to the general public and not unreasonably burdensome to the employee") (internal citations omitted); Chart Indus., Inc. v. Spagnoletti, No. 1:12 CV 2354, 2012 U.S. Dist. LEXIS 140102, at *8 (N.D. Ohio Sept. 28, 2012) (a restrictive covenant is enforceable if it is "reasonable in geographic scope and temporal duration, [ ] advances a legitimate economic interest of the party seeking enforcement, and [ ] survives a balancing of the equities...") (applying Delaware law) (internal citations omitted); Harvest Ins. Agency, Inc. v. Inter-Ocean Ins. Co., 492 N.E. 686, 688-689, 1986 Ind. LEXIS 1142 (Ind. 1986) ("covenants are deemed reasonable only where the restraint is reasonably necessary to protect the employer, is not unreasonably restrictive of the employee and is not against public policy. The determination of the reasonableness of the restraint focuses on the legitimate interests of the along, and a fully briefed motion to transfer that action to the Virginia federal court if granted would moot concerns about parallel actions. The Virginia court granted the former employer’s motion for a stay.

20
employer which might be protected and the protection granted by the covenant in terms of time, space, and the types of activity proscribed”).

These criteria are generally considered as part of a balancing test. In other words, a restrictive covenant may have very reasonable time and geography limitations, but not pass muster because the former employer did not demonstrate that it had a legitimate protectable interest. Similarly, as demonstrated in great detail below, a restrictive covenant with broad or unlimited geographic scope may pass muster if the conduct prohibited by the covenant remains narrow.

Finally, where the restrictive covenant stands overly broad and unenforceable as written, courts in some states will "blue pencil" the covenant, reducing its scope to a point at which the court finds it enforceable as revised. See, e.g., Coates v. Heat Wagons, Inc., 942 N.E.2d 905, 914-916 (Ind. 2011) (where a restrictive covenant restricted a former employee from working in any of the states in which the former employer operated, as specified on an exhibit to the agreement, the court reduced the scope of the restrictive covenant and blue penciled the agreement to apply only to those states in which the former employee had actually had contact with the former employer's customers); Godwin Pumps of America, Inc. v. Mackey Lee Ramer, No. 8:11-CV-580, 2011 U.S. Dist. LEXIS 73754, at *19 (M.D. Fla. Jul. 8, 2011) (where a restrictive covenant signed by a former employee who served as a sales agent had no geographical limitation, the court blue penciled the agreement to apply only to those counties in Florida wherein the former employee actually worked on behalf of his former employer).

II. When Are Courts Most Likely To Enforce A Noncompete With No Geographical Limits?

A. Where Employee Worked Worldwide

One scenario where courts will enforce noncompetes with no geographic limits is where the employee, either because of the large size of the company, or because technology like the Internet allowed a small company to reach a large geographical area, actually worked for the employer in a national or global capacity.

For example, in Coates v. Heat Wagons, Inc., where the former employer manufactured, sold, and leased large heaters in steel mills, portable heater units, heater parts, air conditioning systems and related goods, the restrictive covenant provided, in part, that the former employee would not compete with his former employer by directly or indirectly working with any company involved in the "manufacture, marketing, leasing, distribution, or sale of products in, or services related to, heaters or heating or air conditioning systems and related parts and components markets in any of the states listed on Exhibit A, attached hereto." 942 N.E.2d at 910. Exhibit A, for its part, listed the thirty-two states in which the former employer did business. Later, it became known to the former employer that the former employee had a side business, unknown to the former employer, which competed in one market, namely, the market for the sale of portable heater parts. The former employer then filed suit against the former employee.

The appellate court upheld the trial court's order granting the former employer a
preliminary injunction enforcing the restrictive covenant. The appellate court also affirmed the trial court's decision to blue pencil the restrictive covenant's geographical scope, wherein the trial court struck from the restrictive covenant those states with which the former employee did not have contact while employed by his former employer. Accordingly, the restrictive covenant, as upheld, prohibited the former employee from competing in the thirteen states with which he did, in fact, have contact while employed by his former employee. Similarly, the court in *Talk Fusion, Inc. v. Ulrich*, No. 8:11-CV-1134, 2011 U.S. Dist. Lexis 74549, at *18, 2011 WL 2681677, at *2 (M.D. Fla. June 21, 2011), upheld a nonsolicitation agreement with a broad geographical scope that encompassed "all markets in which Talk Fusion conducts business." The business at issue in that case involved the sale of video communication products for personal and commercial use. The former independent contractor sales associates began to work for a competitor, and began soliciting other of Talk Fusion's independent contractor sales associates to work for the competitor.

In the independent contractor agreement, the former independent contractors had acknowledged and agreed that “because network marketing is conducted through networks of independent contractors disbursed across the entire United States and internationally, and business is commonly conducted via the Internet and telephone, an effort to narrowly limit the geographic scope of this nonsolicitation provision would render it wholly ineffective. Therefore, Associates and Talk Fusion agree that this nonsolicitation provision shall apply to all markets in which Talk Fusion conducts business.” *Id.* at *18-19, *6.

The court held that “[i]n light of the dynamic and wide-reaching nature of digital sales and social media-based marketing, and the highly restrictive temporal scope of the restrictive covenant [six months],” the geographic scope was reasonable. *Id.* The court, in effect, found that the very nature of the business meant that the former independent contractors had competed across the entire United States and internationally. Accordingly, like *Coates*, the *Talk Fusion* case turned on the broad geographic nature of the business.

**B. Where The Departing Employee Was A Highly-Ranked Employee, or Where the Employee Had Highly-Sensitive Competitive Information**

Another enforcement scenario involving a noncompete with a broad geographic scope exists in the scenario of a highly-ranked employee, or an employee in possession of highly-sensitive competitive information. *Zambelli Fireworks Mfg. Co., Inc. v. Wood*, 592 F.3d 412 (3d Cir. 2010) (applying Pennsylvania law) provides a suitable example. Plaintiff *Zambelli* constituted one of the oldest and largest fireworks companies in the country, doing business in over forty states. The former employee worked for the company for seven years, during which time he trained in all aspects of the business, including, but not limited to, layout and choreography of shows, the setup and use of their proprietary systems, their pricing information, contract terms, client lists, and their proprietary pricing formula. The former employer, a family company with no family member who wanted take over the company, believed that the former employee was going to be the "next generation" and "future of the company," a belief which led the former employer to pay for the former employee to get specialized certifications and licensing. The former employer ended up being acquired by another, larger company, and the former employee did not like the changes to the company. The former employee then left and went to work for a competitor.
The circuit court upheld the district court's holding enforcing the nation-wide restrictive covenant. The court was primarily interested in the fact that the former employer had a legitimate business interest in its customer goodwill, and in the specialized training and skills that the former employee acquired on their dime, while working for them. Due to the highly sensitive information possessed by the former employee, the court was unconcerned about the national geographic scope, the somewhat lengthy two-year restriction, and the very broad scope of prohibited activity, namely, the fact that the former employee was prohibited from "engage[ing] in any manner in the pyrotechnic business." *Id.* at 416.

C. Broad Geographical Limitation Permitted Where The Restrictive Covenant Addresses Only Particular Clients, Products, Or Services

Courts have also permitted broad geographic limitations where the scope of the restrictive covenant is narrowly tailored to address only particular clients and/or products or services with which the former employee actually worked during the course of his or her employment.

Take the case of *Salas v. Chris Christensen Sys., Inc.*, No. 10-11-00107, 2011 Tex. App. LEXIS 7530 (10th Dist. Sept. 14, 2011), for example. The former employer, Chris Christensen Systems, existed as a manufacturer and distributor of "high quality dog grooming products that are used by dog show enthusiasts around the world." *Id.* at *1. The former employee Salas, was the Vice-President of Sales and Education Director. On appeal, the appellate court upheld the trial court's imposition of a permanent injunction, which enjoined the former employee from "directly or indirectly interfere[ing] with, or endeavor[ing] to entice away from the Company any clients or account with whom the Employee had direct contact with at any time during his or her employment at Company, or for or with any other person, firm, corporation, partnership, joint venture, association, or other entity whatsoever, which is or intends to be engaged in providing or manufacturing pet supplies and related products manufactured and distributed by Company." *Id.* at *53-54. The Court upheld the five year temporal limitation of the agreement.

The agreement in *Chris Christensen* did not contain a geographical limitation. The court, however, found that "limiting the applicability of the covenant to particular client bases is an acceptable substitute for a geographic limitation in a noncompete agreement." *Id.* at *56 (internal citation omitted). The court went on to find that "[h]ere, the Agreement is limited to a particular client base—entities which are or intend to be 'engaged in providing and manufacturing pet supplies and related products manufactured and distributed by Company [Christensen]'—which we find to be an acceptable substitute for a geographic limitation." *Id.*

Similarly, in *Preferred Sys. Solutions, Inc. v. GP Consulting, LLC*, 284 Va. 382 (2012), the Supreme Court of Virginia held that "[t]he lack of a specific geographic limitation is not fatal to the covenant [in that case] because the noncompete clause is so narrowly drawn to this particular project and the handful of companies in direct competition…." *Id.* at 394. Plaintiff, an information technology contractor for the federal Defense Logistics Agency, subcontracted with the defendant, a consulting firm that provided the services of one of its programmers. The subcontractor agreement contained a twelve month noncompete providing that it would not directly or indirectly 

(a) enter into a contract as a subcontractor with Accenture, LLP and/or DLA to provide the same or similar support that PSS is providing to Accenture, LLP and/or DLA

and in support of the DLA Business Systems Modernization (BSM) program; [or] (b) enter
into an agreement with a competing business and provide the same or similar support that PSS is providing to Accenture, LLP and/or DLA and in support of the DLA Business Systems Modernization (BSM) program." *Id.* at 390.

The defendant ultimately terminated its subcontractor and began working for Accenture, and doing the same work for Accenture that it did for the plaintiff. Plaintiff successfully sued and was awarded $172,395.96 in compensatory damages for defendant's breach of the noncompete agreement. Defendant challenged this award on appeal, but it was affirmed.

### III. Cases Where The Courts Found That A Geographical Limitation Was Overbroad And Could Not Be Blue Penciled

Although cases abound where broad geographic limitations receive enforcement from the courts, there continue to be decisions holding that the geographic limitation contained in the restrictive covenant overbroad and unsalvageable via blue pencil.


The former employer, Chart Industries, a leading global manufacturer of standard and custom engineered products and systems for a wide variety of cryogenic and heat transfer applications (serving three markets (a) energy and chemicals; (b) industrial gas; and (c) biomedical) operated worldwide. The former employee, Spagnoletti, worked for plaintiff for approximately fourteen years, and at the time he left the company, he was the Vice President of LNG Sales, dealing with liquefied natural gas, the fastest growing segment of plaintiff's business. He left and went to work for plaintiff's competitor, Taylor-Wharton International, as the president of its Cryogenics Division, wherein he would work with three business units—(a) LNG; (b) industrial gas; and (c) cryoscience. He would be working for his new employer worldwide, and spending a significant amount of time overseas. He also brought two other of plaintiff's employees along with him. Chart Industries sued and sought a preliminary injunction, which the court denied.

The restrictive covenant at issue provided that, for one year, Spagnoletti could not, among other things, directly or indirectly "act as a[n] . . . employee . . . in any business that directly or indirectly competes with the business of the Company or any of its subsidiaries . . ." *Id.* at *2.

The court found that "plaintiff fail[ed] to demonstrate a strong likelihood that it w[ould] succeed in establishing that the covenant [wa]s enforceable absent a geographic or job-scope restriction." *Id.* at *9. The court stated that "[w]hile [it] appreciate[d] that a national or even international covenant might be possible given the global economy, the lack of any geographic restriction whatsoever must be highly scrutinized because it has the effect of entirely prohibiting an employee from earning a living in the industry in which the employee is experienced." *Id.* at *11. The court refused to issue a preliminary injunction on those facts.

because there was no geographic restriction. In that case, the plaintiff, Mary Spallholtz, was the daughter of the founder of co-plaintiff General Gasket and Supply Co., a company that manufactured and sold gaskets. Defendant Leone worked for General Gasket for approximately six years, after which point he went to work for Superior Gasket and Rubber Supply Co., a competitor. Plaintiffs allege that Leone violated his restrictive covenant by contacting General Gasket's customers. The court refused, in part, to enforce the restrictive covenant because it contained "absolutely no geographic restriction as to where Leone could work without ostensibly violating the covenant. Depending upon the facts of each case, it is practically possible that a national or even wider area of prohibition would be what is necessary to protect the employer's trade secrets. This does not appear to be so in this action." Id. at *5-6.

Another such case is Specialty Mktg., Inc. v. Lawrence, 80 Va. Cir. 214 (Hanover Cnty., 2010). Specialty, a wholesale distributor of consumer home and automotive electronics, employed Lawrence for over ten years, first dealing with purchasing from manufacturers, and then moving into sales. He eventually became a director of the company, and purchased stock from the company. The stock purchase agreement contained a noncompete provision prohibiting Lawrence from any direct or indirect involvement with "any business competitive with Specialty in areas where Specialty has a market for its business." Id. at 216. The court dismissed the breach of contract cause of action based upon the noncompete agreement, holding that it was "precisely the type deemed overly broad and unenforceable by the Supreme Court of Virginia because it is unlimited in functional scope. The language far exceeds whatever limitation would be necessary to protect Specialty's business interests." Id. at 217. The court further noted that the restrictive covenant "prohibits Lawrence from being employed in areas where Specialty has a market for its business. Thus, Lawrence could move to Arizona, a state outside those listed in the Complaint that define the area where Specialty has a market for its business, and, if Specialty were to expand its business to the state, then Lawrence would be in violation of the Agreement." Id. The Court was troubled by the fact that "[t]he geographic scope is clearly not limited to the area formerly serviced by Lawrence or within a set mile radius of his former territory" and found the noncompete to be unenforceable. Id.

IV. Case Summaries, By Industry, Considering Broad Geographical Limitations

In order to assist practitioners who focus on particular industries, we have included below summaries, by industry, of cases discussing broad geographical limitations. The industries considered are (a) Insurance; (b) Financial Services; (c) Technology; (d) Healthcare; and (e) cases of note in other industries.

Insurance Industry


Plaintiff Benfield Holdings, Inc., a reinsurance broker working in the financial industry, employed Defendants, former high-level employees, who resigned and immediately started working for another reinsurance company, taking at least one client with them. The parties’ employment agreement contained a confidentiality agreement and a restrictive covenant preventing solicitation of customers or employees. Plaintiff moved to enjoin defendants from soliciting plaintiff’s employees or customers. The court found the nation-wide geographic scope
of the restrictive covenants reasonable because plaintiff did business on a national level. Further, a restrictive covenant will be enforced for the period of time that is required to ensure protection of the business and “good will of the employer.” The court found the one-year limitation to be a reasonable period of time. Finding that the covenants are likely enforceable, the court granted the preliminary injunction in favor of the plaintiff.


Plaintiff Corporate Healthcare Financing, Inc. serviced employers who self-insure their employees and defendant BCI Holdings Co. constituted a third-party administrator of self-insured health plans. Plaintiff sued defendant for violating a restrictive covenant in their agreement. The covenant restricted both parties from soliciting customers from one another for a period of three years after the termination of the agreement. Plaintiff successfully enjoined defendant from further violating the covenant. The court found that the clause itself is likely enforceable. The national scope is not overly broad because both businesses are national and the covenant is limited by former customers rather than geographical area. Further, the time limit of three years is not overbroad given the annual cycle of the industry.


Defendant, Arthur J. Gallagher Risk Management Services Inc. is an insurance brokerage company. Plaintiff sold an insurance product he helped develop known as the Drivers Advantage Program. Upon his departure from defendant, plaintiff negotiated the purchase of the eleven client accounts associated with his Drivers Advantage Program. The sale agreement contained a noncompete provision, which prohibited defendant from selling or offering to sell products associated with the Drivers Advantage Program for three years following the execution of the sale agreement. Plaintiff subsequently sued defendant for breach of the noncompete clause, and defendant argued that the clause was unenforceable due to its unlimited geographic scope. Considering that the noncompete is ancillary to a sale agreement and the nature of the business, the court found that the unlimited geographic scope did not render the clause unenforceable. The court considered the nature of the business, the manner in which it has been conducted and its territorial extent in fashioning a geographic scope for the noncompete. The court reasonably modified the geographic scope to eight states: (i) the states in plaintiff was licensed to sell insurance at the time he contracted with defendant to purchase the Drivers Advantage accounts, (ii) the states in which the clients for those accounts were based, and (iii) any other states in which the plaintiff had already marketed the Drivers Advantage Program at the time he signed the sale agreement. The court denied defendant’s motion for summary judgment against plaintiff on his breach of contract claim.

Financial Services Industry


Plaintiff GFI Brokers is a financial broker and defendant John P. Santanam, a former employee.
The parties’ employment agreement stated that defendant would work exclusively for plaintiff for two years. The agreement prevented defendant from soliciting customers or working for competitors within fifty miles of plaintiff’s offices for the period of the contract and for four months following termination. In the middle of defendant’s contractual term he left the company and started working for a competitor in their Brazil office. The court ruled on the parties summary judgment motions, denying plaintiff’s motion for summary judgment with respect to the non-competition clause. Defendant argued that the geographical ban is practically a worldwide ban because all of the competitors are in New York City and working for any of them in any office would constitute an association within the fifty-mile radius. The court found that the geographical restraint is valid because defendant can work for a competitor in another office so long as he is not being paid by the New York City counterpart as he was with his new employer. Furthermore, world-wide bans have been upheld when businesses compete on a global scale. Defendant did not argue that the four-month limitation was unreasonable. The court found the restraint overly broad because defendant could not associate with a competitor “regardless of the nature of that association.” The court stated that the clause may be tailored as trial proceeds.


Plaintiff Faw, Casson & Co., an accounting firm, and Defendant, a former partner, found themselves in litigation after Defendant left the firm taking a number of clients with him. The parties’ employment agreement prevents a withdrawing partner from practicing within a forty-five mile radius from each office and for a period of five years from withdrawal. If a partner fails to abide this agreement, the partner must pay for each solicited former client account through his or her continued income participation benefits. Provisions stating that former employees can compete at the expense of their benefits, are not different from a covenant not to compete. Even though the covenant had a forty-five mile radius, no geographic restriction was really needed as it truly only restricted defendant’s access to plaintiff’s clients. The court found that such a restriction is reasonable if the restraint is not geographically wider or longer in time than reasonably necessary for the protection of the business and do not impose undue hardship on the employee or disregard public interest. The noncompete clause when coupled with the forfeiture option makes the noncompete clause a lesser restraint—the former employee has an option to breach the agreement and pay the fee. The court found that the forty-five mile radius of each office limitation is a reasonable restraint and that defendant can work in those areas so long as he pays for any accounts that he takes from plaintiff. The five year restraint was modified to a three-year restraint by the lower court and this court upheld that modification, because three years is enough time to restore a professional relationship between a new accountant and clients.


Plaintiffs are partners of an investment management company seeking injunctive relief against defendant, a former partner for breaching a noncompete agreement and nonsolicitation agreement. The agreements provided a five year limitation “on soliciting or accepting business from a client of the investment management company and a three year ban on participating in any business engaged in competition” with the investment management company. The reasonableness of these restrictions was analyzed based on the “nature of the business, the type
of employment involved, the situation of the parties, the employer’s legitimate business interests and the right to work and earn a livelihood.” The court found the five year restriction on solicitation reasonable, but the three year ban on all competition nationwide unreasonable. The court noted that nationwide restrictions have been upheld, but in this case the court finds the breadth of the restriction unduly burdensome on the defendant. The court enjoined defendant with respect to the nationwide five year nonsolicitation clause, but not with respect to the nationwide three year noncompete.


Plaintiff Natsource was in the business of brokering energy-related commodities. After learning that defendant, a former employee, intended to resign and go to work for a competitor, plaintiff sued defendant to enforce the non-competition and nonsolicitation covenants in defendant’s employment agreement. The court granted the plaintiff’s request for a preliminary injunction. The non-competition agreement prohibited defendant from working for a competitor for 120 days following his termination. The agreement also contained nonsolicitation provisions of similar length. The court noted that although the restrictions would prevent defendant from working in the United States altogether, such restrictions are necessary in a market in which “there exists only a finite number of customers for which each inter-dealer brokerage competes.” The court recognized that the inter-dealer broker business in which the defendant is engaged is done over the phone lines and defendant could conduct his business from anywhere in the world where there is a phone, but the customer pool is very small and spread out over the county. Thus, a geographic restriction on the covenants would render them nullities. In considering the reasonableness of the restrictions, the court also noted that defendant would be paid his salary during the restricted period of the non-competition provision.


Plaintiff Scholastic Funding Group is in the financial industry and is involved in student loan consolidation. Plaintiff filed a motion for preliminary injunction to prevent defendant, a former Vice President of Operations, from breaching a number of restrictive covenants set forth in the defendant’s employment agreement. The noncompete provision of defendant’s employment agreements prohibited defendant from engaging or participating in any business that is substantially similar to, or competitive with, the present business of Scholastic. When analyzing the enforceability of the noncompete agreement, the court considered the scope, geographic limit, and duration of the noncompete. The court found that the one-year duration was not unreasonable. The noncompete lacked a geographic restriction, but the court held that because the scope of the telemarketing business is broad-ranging and nationwide, the lack of geographic limitation did not render the noncompete unenforceable. The court enjoined Defendant from violating the noncompete provision without any geographic limitation on the restraint.

Technology Industry

The case involved a company that had purchased assets, particularly patents and proprietary knowhow, of a former Polaroid division involved with semiconductor laser technology. The court recognized that anti-competitive agreements extending geographically throughout the United States have, under appropriate circumstances, been approved by the courts. However, at trial, the president of the former employer was unable to articulate reasons for requiring employees, who generally worked in routine optical engineering functions, from being restricted throughout the United States. The case turned primarily on the failure to establish that the former employee’s skills were unique or extraordinary. The court found that the nature of the business, lasers and other technology, would suggest that restrictions were necessary but found that the Plaintiff failed to sufficiently demonstrate a reasonable likelihood on the merits, due to the routine nature of the employee’s duties and the lack of evidence that he gained expertise in this highly technical area or that he developed specialized, extraordinary technical acumen to elevate the significance of his skills.


The plaintiff was a computer software company. Although the court considered the unlimited geographic scope of the restrictive covenant troublesome, the court granted an injunction because the plaintiff’s business was world-wide. The case turned on the worldwide scope of the business (the business issued licenses world-wide) combined with the limited duration of the covenant, i.e., one year.


This early case involved an Internet advertising company in which the former personnel had access to highly confidential information regarding revenue, future projects, pricing, and client information. A six month injunction issued, largely turning on the pace of Internet business development and the importance of the company confidential information to which the former employees had access, even though the restrictions had no geographic limits. The court held, "Moreover, the one-year period sought by plaintiff is too long. Given the speed with which the Internet advertising industry apparently changes, defendants' knowledge of DoubleClick's operation will likely lose value to such a degree that the purpose of a preliminary injunction will have evaporated before the year is up." *Id.* at *23, *8.


This case constitutes one of the more important cases first defining how noncompetes would be enforced in Internet commerce. The court referred to this as a breach of contract and misappropriation of trade secrets case “in the fluid and ever expanding world of the Internet.” *Id.* at 302. This language suggests the court viewed the Internet as a substantial force in the evaluation and enforcement issues in noncompetition agreements, although it applied it to the temporal restriction more so than the geographic limit. The court found that a one-year duration “is too long given the dynamic nature of the industry, its lack of geographic borders” and the former employee’s cutting edge role at the former employer. *Id.* at 313. Although the defendant/employee tried to draw distinctions between the nature of each company’s business and its use of the Internet, the court held “given the dynamics of the Internet, . . . [there is]
difficulty in assessing the characteristics of the [plaintiff], an embryonic business entity that will compete in a nascent industry which is evolving and re-inventing itself with breathtaking speed.” Id. at 306. Nonetheless, the court declined to enforce the covenant.


In this case brought by computer manufacturer Gateway 2000, the court found that a one-year restrictive covenant was too broad in scope because it prohibited the employee from working in any capacity for any computer company anywhere in the world. The court held “there is nothing in the nature of Gateway’s business which is more secretive than any other competitive enterprise.” Id. at 797. Even though the employee had access to confidential information, the worldwide restrictive covenant was too broad.


Partial injunctive relief was granted to plaintiff, which manufactured electronic components, against a process engineer it had employed. The case seemed to turn on the balance of harm factor, and the individual defendant’s access to his former employer’s technology. The court granted the injunction for a very limited time, i.e. 3 months, until a trial could be held on the merits.


IBM brought this case against a former executive, to keep him from working for Apple, Inc. The court noted that the nature of IBM’s business “requires that the restriction be unlimited in geographic scope.” Id. at *3,*11 (citing *Estee Lauder Cos. v. Batra*, 430 F. Supp. 2d 158, 181 (S.D.N.Y. 2006) (upholding worldwide limitations)). The case turned both on the narrow, one-year duration and the extensive knowledge of Mr. Papermaster about IBM’s strategic plans and business forecasts. The court found his knowledge of the IBM “Power architecture” to be unique and irreplaceable and that the risk of even inadvertent disclosure was sufficient to establish irreparable harm.


Mr. Visentin held several management positions in different geographic and business functions across IBM. The geographic scope of the covenant was worldwide, i.e. “any geographic area in the world for which [Mr. Visentin] has responsibilities during the last twelve (12) months of [his] employment with the IBM” [sic]. Id. at *10, *3. The court noted that IBM, and the new employer, Hewlett Packard (“H.P.”), were competing in an emerging market called cloud computing. The court noted that Mr. Visentin’s position at H.P. was not nearly identical because his new responsibility at H.P. was significantly larger and included areas of supervision, both substantive and geographic, as to which he had no prior exposure in his position with IBM. The court therefore found that IBM failed to show it would suffer irreparable harm if Mr. Visentin worked with H.P. IBM failed, in the court’s view, to articulate a legitimate business interest for
protection. Geographic scope played a key role in the decisions, as did the individual’s role in the company.


This case involved a business of selling, leasing, and servicing office equipment and systems. The employment agreement provided that for a period of 18 months eight former employees would not sell or solicit the sale of competitive products or services within the same geographic area and/or to the accounts to which they were assigned and/or worked in the one-year period prior to the termination of employment. As to a copier technician, IKON sought only to enforce the agreement with respect to customers/accounts with whom the former employee had done business. It waived enforcement as to the geographic territory restriction. The case against that employee turned on the former employee's role within the company, as the court found that IKON failed to demonstrate how its legitimate interest in protecting customer relationships and good will extends to a copier technician who services hundreds of accounts while in IKON’s employ. The employer asserted that its service technicians perform a sales-type function while calling on customer sites, and have frequent opportunity for customer interaction. Nonetheless, the court found that there was no evidence to indicate customer relationships of IKON were being exploited by the former employee as a copier technician. The other former personnel held positions of production sales manager, account executives, and major account representatives. As to these other former personnel, the restrictive covenant was upheld for a period of 18 months, as to soliciting, contacting or engaging in any business with any customer to which they were assigned, had management or sales responsibility or account specific information during the two-year period preceding their termination of employment with IKON. This decision turned on the roles of the employees with the company, and their relationships with customers. The copier technician, on the other hand, was not restrained from customer contact. The close relationships of the other former IKON personnel was critical. The court also considered the potential inclination of IKON customers wanting to remain with the same equipment manufacturer but to turn to a new vendor with the same manufacturing line, thereby elevating the importance of the account representative.


The former employer was a wholesale distributor of computer hardware and software, selling primarily to value-added resellers with a sideline in developing and selling computer systems. It sold products in all 50 states and abroad. The court noted that “competition in the computer market is world-wide” and further noted that Robec distributed throughout the United States and abroad, making a geographic scope including the entire United States reasonable. *Id.* at 512. However, “because of the quick pace of obsolescence and technological innovation, three years’ ban on competition is longer than necessary to protect Robec’s interest in the products on which plaintiff worked.” *Id.* The case therefore turned on the nature of the computer industry, but found that a two-year ban was more appropriate.
The plaintiff sought a preliminary injunction against the developer of a software product and its consulting affiliate along with two individual employee defendants. The plaintiff marketed a proprietary international banking software product. The stated restrictive covenant prohibited executives from being “engaged in any geographic area in which the Company or any of its subsidiaries conducts or plans to conduct business in any business which is in competition with the business of the company.” Id. at 350, *3 n. 2. The court found that a restrictive covenant must be geographically reasonable, but “under circumstances involving a worldwide business, a covenant with no geographical limitation may be enforceable.” Id. at 350, *8 (quotations and citations omitted). The case turned on the evidence adduced which established the international nature of Misys’ business and the involvement of clients in the United States, England, South America, and Israel. At the preliminary injunction phase, the court stopped short of granting a worldwide prohibition, but applied it in several nations.

The former employer was in the retail sale of computer electronic equipment over the Internet. The former employee went to work for a direct competitor of the plaintiff. The court noted this was a “fast-emerging, even revolutionary industry, and therefore the noncompetition and nondisclosure clauses are necessary to protect the plaintiff’s legitimate business interests.” Id. at *5, *2. The case turned heavily on the access to confidential information. It noted the defendant had become familiar with the computer programs of the former employer as part of the content management aspect of the business.

The noncompetition provision in this case involving a public sector software company that developed integrated software solutions for state and local governments lacked any geographic limits. The court noted that such an agreement “can be reasonable if the employer actually has legitimate business interests throughout the world.” Id. at *32, *11. The case turned on the geographic scope of where the company did business, specifically the plaintiff’s failure to submit evidence showing it had legitimate business interest throughout the world. Although state and local governments exist all over the country, the unrestricted geographic limitation was found by the court not to be reasonable. The case also focused on the plaintiff’s failure to produce evidence of a protectable interest and the fact the restriction precluded the employee from working for a competitor in any capacity.

The plaintiff was a manufacturer of pressure water products. The court noted that in Illinois, restrictive covenants that lack geographic limitations are not per se unreasonable unless they are beyond the needs of the employer to protect its legitimate business interest. As the decision was
rendered in the motion to dismiss phase, the court was unwilling to undertake the necessary fact-based determination and the motion to dismiss was denied despite the absence of a geographic limitation.


The former employer was a national contract employment placement firm that connected computer professionals with companies that required temporary skilled assistance. The information that the plaintiff possessed included publically available information such as resumes found on the Internet and proprietary information which the plaintiff had obtained through more intensive investigation. The court noted that the restrictive covenants were not limited in space at all. However, the plaintiff was a nationwide recruiting firm that operated throughout the country using telephone and Internet based methods. On that basis, the court found the restrictive covenant on a nationwide basis to be reasonable. The case turned on the geographic scope of the business and the nature of the information involved.


The defendant’s employment with the plaintiff involved the development of speech recognition software. The employment agreement contained a two-year restrictive covenant. The court enforced a restriction prohibiting the defendant from soliciting business from or performing services for any actual or prospective clients, customers or suppliers of the plaintiff in any manner that would hinder or harm the business of the former employer. The geographic scope of the clause covered the entire United States, but the court found it was reasonable considering that the defendant was only barred from working in the narrow field of voice recognition software technology. Therefore it appears that the case turned on the narrowness of the functional limitation of the employment prohibition and geography.


The former employee was an officer of the company that produced mobile telephone accessories. He had signed a two-year restrictive covenant, which prohibited him from working for a direct competitor in the same or similar position in the geographic area where the company transacted business and marketed its goods. The court upheld the restrictive covenant. Sales took place via the Internet and in retail stores. The court's decision turned on the geography of the business involved, i.e. the plaintiff’s proffer of proof that it sold or marketed its products in thousands of specific locations nationwide through multiple, well-known national and regional third-party retailers.


The noncompetition clause restricted the employee from recruiting or soliciting employees from the plaintiff company and further prohibited him from soliciting business and/or performing services for a period of 90 days from the date of any termination of employment with the plaintiff for clients of the plaintiff or prospective clients of the plaintiff identified during the term
of employment. The covenant further prohibited the employee from engaging in healthcare information systems consulting and management consulting businesses for six months following the date of termination. The court not only granted the preliminary injunction, but also extended the nonsolicitation agreement due to the defendant’s activities in soliciting other employees.


Although the geographic term was not precisely identified, the court stated that the prohibited “competitive activities” were restricted to “those activities carried out on behalf of products that were marketed in geographic areas that overlapped with those in which Verizon offered products and services.” *Id.* at 652. The opinion does not indicate whether the geographic scope was nationwide or worldwide. Focusing on the fact that Verizon and Comcast are direct competitors, and applying the inevitable disclosure doctrine, the court found that the geographic scope of the covenant was reasonable, holding “a non-competition covenant is tailored to prevent [d]efendant from working only for companies that engage in competitive activities in those areas where Verizon has a business presence.” *Id.* at 661.


This was an early technology-related noncompetition agreement case in which a preliminary injunction was granted by the court. The court granted a six-month injunction, holding that the geographic scope of the restriction was not overly broad in light of the plaintiff’s business throughout the United States and parts of Canada. It also cited *Business Intelligence Services, Inc. v. Hudson*, 580 F. Supp. 1068, 1073 (S.D.N.Y. 1984) for the proposition that unlimited geographical limitation is enforceable if it is sufficiently limited as to time and given the international nature of the employer’s business.


In a summary judgment posture, the court considered restrictive covenants used by an employer to limit former employees competing with regard to the training of clients on how to use Microsoft software. The geographic scope of the nonsolicit was “coextensive with those political subdivisions . . . where [plaintiff] does business.” *Id.* at *4, *1. The covenant was further narrowed by its stated application to “any of [plaintiff’s] customers, including actively sought prospective customers, with whom you have had material contact during your association for purposes of providing products or services that are competitive with [plaintiff].” *Id.* at *4, *1. The court noted that Illinois law generally disfavors nonsolicitation covenants that lack a geographic scope. The court noted, however, that when restrictive covenants contain no geographical limitations but limit their effect to customers with whom the employee had material contact, Illinois courts have held such restrictive covenants valid. The court therefore upheld the restrictive covenant.

**Healthcare Industry**

In *Accelerated Care Plus*, the court enforced a noncompete with no geographic limitation against two people who were “key employees” who had extensive knowledge of ACP's treatment methods, training and instructional materials, and business strategy and models, who went to work for ACP's client. 2011 U.S. Dist. LEXIS 93839, at *11. The former employees' titles were Regional Manager of Training and Compliance and Vice President of Sales. *Id.* at *3. ACP specialized in providing training and usage methods for the medical equipment that it leased to skilled nursing and physical therapy facilities. *Id.* At **1-3. The court enforced ACP’s one year noncompete, noting “while the restrictive covenants...have no geographic scope, they are tailored to prohibit subsequent employment in a similar position with a similar or competitive business.” *Id.* at *13, 20 (emphasis added). The court further noted that there was no undue hardship to the employees because they could work for a competitor so long as their “job responsibilities and functions do not relate in any way to the goods and services that are the same as or similar to the goods and services provided by ACP.” *Id.* at *15.

Important to the court's decision: ACP constituted a national business in all states except Alaska. *Id.* at *13. The court reasoned:

> In the case of a localized or regionalized business, a geographic limitation in a restrictive covenant would reasonably address any possible harm that employer may suffer. However, courts have recognized that when an employer’s business is national in scope, an unlimited geographical scope may be reasonable so long as the field is sufficiently limited. Indeed, as the Third Circuit has astutely recognized, in this Information Age, a per se rule against broad geographic restrictions would seem hopelessly antiquated. *Id.* at *12-13 (citations omitted)(emphasis added).

The court held that a temporary restriction prohibiting someone from pursuing a livelihood in the manner he chooses can be warranted particularly where the departing employee participated in a theft of confidential information prior to departure, and where circumstances indicate that he intends to, or will likely use that information to assist a competitor and harm his former employer. *Id.* at *18-19 (citation omitted).

*Community Hospital Group v. More*, 869 A.2d 884, 897-99 (N.J. 2005)

The court in *Community Hospital Group* held that a 30 mile geographic restriction was not enforceable against a doctor because it could compromise treatment of ER patients at the competing hospital due to a neurosurgeon shortage\(^{36}\), even though the noncompete’s two year

---

\(^{36}\) Likewise, if a hospital recruits a physician, and imposes a noncompete that unreasonably restricts a physician’s ability to practice medicine in that geographic area, physician referrals to the hospital may violate the Stark anti-referral laws. *See* 42 CFR 411.357 (e)(4)(vi). The underlying theory again appears to be that if the physician is needed in that community, the hospital cannot impose limits on the physician’s ability to serve the community. Interestingly, some states which void noncompetes that restrict the right of a physician to practice medicine in a particular locale, permit liquidated damages provisions for violating such restrictions. *See*, e.g., Delaware Code Title 6, Sect. 2707; *Palekar v. Batra*, 201 Del. Super. LEXIS 257 (May 18, 2010) at *15-17.
duration and scope of prohibited activities was not overbroad. The court noted that the American Medical Association deems noncompetes unethical when they are excessive in geography, or fail to make reasonable accommodation for patients’ choice of physician:

Covenants-not-to-compete restrict competition, disrupt continuity of care, and potentially deprive the public of medical services. The Council on Ethical and Judicial Affairs discourages any agreement which restricts the right of a physician to practice medicine for a specified period of time or in a specified area upon termination of an employment…agreement. Restrictive covenants are unethical if they are excessive in geographic scope or duration in the circumstances presented, or if they fail to make reasonable accommodation of patients’ choice of physician.

869 A.2d at 896 (emphasis added); see American Medical Association Code of Medical Ethics, Opinion 9.02; Restrictive Covenants and the Practice of Medicine, available at http://www.ama-assn.org/ama/pub/physician-resources/medical-ethics/code-medical-ethics/opinion902.page# (emphasis added). The court in Community Hospital noted that this AMA provision is essentially the same as New Jersey case law.


In Ethicon, the court refused to enforce a medical device company’s nationwide noncompete and “blue penciled” it to the three states where the employee previously worked. 2010 Mass. Super. LEXIS 314, at *15. The court reasoned that the likelihood that the employee would use confidential information or trade secrets was greatest when he was working in the same locale as he did for his former employer, noting that “[The former employee] is a salesperson and educational strategist, not a scientist.” Id.


The court refused to enforce a genome analysis company’s noncompete with no geographic restrictions, because the employer did not provide evidence on the nature of its relationships with its clients or otherwise meet its burden of establishing that the noncompete was necessary to protect its interests. 2010 U.S. Dist. LEXIS 6156 at *28;


In Intermountain, the court remanded for consideration of reasonableness of a two county geographic prohibition on the practice of medicine for two years. The court held that the employer’s interest in the patients it provided to a doctor during his employment is limited by those patients’ interest in continuity of care and access to the health care provider of their choice. 172 P.3d at 132.


The court enforced a noncompete with no geographic limitation which prohibited working on
“competitive products” for one year following employment. 2011 Minn. App. Unpub. LEXIS at *3. Medtronic, Inc. (“Medtronic”) developed therapies to treat a variety of medical conditions, including but not limited to cardiac rhythm disease management (“CRDM”). Id. at *1-2. Medtronic’s Alabama CRDM District Manager left to become a St. Jude Medical, S.C. Inc. (“St. Jude”) Florida Regional Sales Director for CRDM Devices. Id. at **4-5. The court enforced Medtronic’s worldwide non-compete, noting that because it was limited to “certain cardiology products,” the employee could work for a competitor in a sales capacity in a different division without risking disclosure of Medtronic’s confidential information related to CRDM’s. Id. at *15. The appellate court upheld the district court’s holding that, “This product-specific limitation strikes a reasonable balance between Medtronic’s need to protect its confidential information and [the employee’s] need to earn a living.” Id. The court cited the fact that the confidential information that its employee had access to was not limited to the geographic areas where he worked, and that the information could be applied to markets internationally, in support of its ruling enforcing the worldwide non-compete. Id. at *14-15. The court also cited the fact that Medtronic operated on a global scale in its product sales, and that it competed with the new employer in those areas, in support of its ruling enforcing a worldwide noncompete. Id. at *14.

MP TotalCare Services, Inc. v. Mattinoe, 648 F. Supp. 2d 956 (N.D. Oh. 2009).

In MP TotalCare, the court refused to enforce a nationwide noncompete. MP TotalCare Services, Inc. (“MP”) provided wound care consultants to hospitals and clinics. 648 F. Supp. 2d at 960. Mattinoe was an MP Clinical Services Manager who worked with wound care centers “throughout the country,” including Pennsylvania, New Hampshire and Ohio. Id. In the noncompete, Mattinoe promised not to compete for 18 months post-employment by working in sales or management for any entity that sold or supplied anything in the United States. Id. at 961. The court held that MP could not preclude Mattinoe from engaging in business activity outside of wound care. Id. at 964. The court further held that MP could not prevent Mattinoe from working in areas distant from where MP had a presence, and reformed the non compete to prohibit working in the wound care field in Toledo and recruiting MP’s customers in other states. Id. The fact that Ohio accepts the inevitable disclosure doctrine was not sufficient for the court to enforce the noncompete as written. Id. at *18-19.

Notable Cases From Other Industries


Creative Dimensions provides goods and services in the areas of signs, portable exhibits, custom exhibits, trade show services, and the like. It purchased the defendants' business, Convergence Exhibits, in 2005. The agreement included a noncompetition and nonsolicitation agreement with a term of eighteen months commencing with the termination of defendants' employment. It did not contain a geographic restriction. Defendants left their employment with Creative Dimensions and joined defendant ABC Sign Corporation. The court found that the nature of the business was a nationally competitive one, with "dozens of trade shows across the country and many, many local, national, and multi-national clients…." Id. at *10. Accordingly, "[b]ecause of the nature of the business, the geographic designation in the Agreement is reasonable, as is the time limitation of eighteen months." Id. The Court, however, refused to enforce the restrictive
covenant because Creative Dimensions did not require any of its other former or current sales employees to sign restrictive covenants, which indicated to the court that Creative Dimensions did not really believe that the covenants were necessary to protect the company. *Id.* at *12.


Elexco is a full-service land company which performs such services as land consulting services, renewable energy services, mapping services, title services, legal services, and seismic support services. Hennig was the manager of the seismic support services group, before he started his own, competing company, Inland Geoservices. Hennig had a non-compete agreement, and a nonsolicitation of customers agreement with Elexco, both of which had a term of eighteen months, and no geographical restriction. The noncompete agreement provided that Hennig would not, directly or indirectly "engage in a business similar to [Elexco's] business [or]...(1) induce any customers...to patronize any similar business which compete with [Elexco], (2) canvas, solicit or accept any similar business from any customer of [Elexco], (3) directly or indirectly request or advise any customers of [Elexco] to withdraw, curtail or cancel their business or services with [Elexco], (4)...disclose to any person or corporation the name or address of any of the customers of [Elexco] or (5) attempt to induce, or induce, any existing or former customers of [Elexco] to take any existing or future business...to [Hennig] or any other third party or entity." *Id.* at *3-4. The District Court affirmed the Magistrate Judge's determination that the restrictive covenants were not enforceable because they far exceeded the scope of Elexco's legitimate business interest. It also noted that "[t]he covenant as drafted contains no geographical restriction, is not limited to the seismic support services provided by [Hennig] during his employment, and is not limited to clients [Hennig] developed relationships with while employed by [Elexco]." *Id.* at *56. The court also declined to blue pencil the noncompete agreement, as it would essentially require rewriting the parties' contract. *Id.* at *8.


Godwin manufactures, rents, and sells pumps and pumping accessories through a network of more than four hundred distributors worldwide. Ramer was a sales engineer/sales representative in Godwin's Lakeland, Florida office. He worked in numerous counties within Florida. He signed a non-compete agreement and a nonsolicitation agreement that prohibited him from competing with or soliciting customers or employees of Godwin for a period of two years following the termination of his employment. Ramer resigned from Godwin and became employed by a competitor, National Pump and Compressor, Inc. Godwin later sought to obtain a preliminary injunction against Ramer. The court found that Godwin had a legitimate business interest in the non-compete and nonsolicitation agreements, but that it was unreasonable for the non-compete to have an unlimited geographic scope. The court blue penciled the non-compete agreement to apply only to those counties in which Ramer actually worked for Godwin, and a 50 mile area surrounding those counties.

Plaintiffs O’Leary and Gualco owned a business that purchased and resold telecommunications equipment. They sold the business, defendant Telecom Resource Service, LLC, to TRS Acquisition LLC, a wholly-owned subsidiary of defendant NAL Worldwide, LLC. NAL is a subsidiary of defendant Lake Capital Management, LLC. Plaintiffs, as part of the acquisition, signed several agreements containing noncompete agreements, which all, in general, provided that plaintiffs would not directly or indirectly "own, operate, manage, control, engage in, invest in, be employed by or participate in any manner in, act as a consultant or advisor to, render services for…any entity competitive with the Business of TRS anywhere in the United States for a period of four years from the closing date…." *Id.* at *7. The court determined that defendants had a legitimate business purpose in enforcing the non-compete agreements, and that the four year term of the noncompetes was permissible. The court also noted that "[t]he overarching intent of a non-compete covenant is to protect the geographical area where the business owner conducts business, and to protect its economic interests against those who may have gained an unfair competitive advantage against them as a former employee. A national scope can be particularly necessary in today's world where so many businesses operate on a national or even global scale." *Id.* at *13-14. Given that the business operated nationwide, the geographic scope of the restrictive covenant was permissible. *Id.* (emphasis added).


Plaintiff is one of the largest wholesale distributors of wine, alcoholic, and non-alcoholic products in the nation, and it operates in over thirty states. Simpkins is a former high level executive of Plaintiff who worked for the company for nearly thirty years. During the last five years of his employment by Plaintiff, he earned approximately $39 million in salary and annual bonuses averaging $7.8 million. Simpkins resigned and joined one of Plaintiff's top competitors in California. The non-compete agreement at issue was governed by Florida law, and a California court declined to exercise jurisdiction even though Simpkins and his new employer now resided in California. The non-compete agreement contained a five year term, and it prohibited Simpkins from conducting in "Restricted Business Activities" anywhere in the United States, its territories, and its possessions. The "Restricted Business Activities" included, but was not limited to, directly or indirectly getting involved with businesses that engaged in the wholesale sale of alcoholic and nonalcoholic beverages, and the soliciting of Plaintiff's employees.

The court denied Plaintiff's request for a preliminary injunction. It found that while Plaintiff had a legitimate business interest in the non-compete agreement, the five year term was overly broad, and should be no longer than six months. Moreover, the nationwide geographic scope was impermissibly broad, as the record showed that "the business practices of Southern Wine vary from state to state; the markets are different, the customers are different, and each market's critical information is different." *Id.* at *18.
GEOGRAPHIC LIMITATIONS IN CANADA

This section of our paper will discuss the approach taken by Canadian courts to clauses that attempt to restrict competition following the end of the employment relationship. Specifically, the case summaries provided will focus on the approach taken by Canadian courts to evaluating the reasonableness of covenants with respect to their geographic limitations. In summary, in Canada, geographical limitations are by no means obsolete. Moreover, there is, to date, no Canadian decision in which a worldwide non-compete clause has been unequivocally endorsed or upheld as reasonable. To the extent that the Canadian courts have actually considered worldwide restrictive covenants, the courts have ruled against parties seeking to enforce them. See for example, the summary of the Mason v. Chem-Trend Limited Partnership case at page 10 and the decision of the Quebec Court of Appeal in Jean v. Omegachem inc. at page 16.

Challenges in the Canadian courts to the enforceability of covenants that purport to restrict an employee’s activities after the employment relationship has ended have a long history. One of the leading Canadian cases on the enforceability of post-employment restrictions is a 1935 decision of the Supreme Court of Canada, Maguire v. Northland Drug Company Limited. As recently as December 8, a judge of the Ontario Superior Court of Justice confirmed that Maguire remains good law. In Maguire, the Court identified a number of questions to be addressed when considering the enforceability of a restrictive covenant, including:

(1) what are the rights which the employer is entitled to protect by a restrictive covenant?
and

(2) is the covenant, as drafted, limited to trying to protect those proprietary rights?

It is a well-established principle of Canadian law that any post-employment restriction on competition or solicitation that goes beyond what is “reasonably required” to protect the Company’s proprietary rights, such as confidential marketing or pricing information or its client relationships, will not be enforceable. The overriding issue the courts will consider is whether or not the clause goes beyond what is reasonable to furnish appropriate protection to the Company. A decision about whether a clause is reasonable turns on the facts of the case or, as described by the Supreme Court of Canada in J.G. Collins Insurance Agency Ltd. v. Elsley, “… upon an overall assessment of the clause, the agreement within which it is found, and all of the surrounding circumstances.”

In evaluating reasonableness, Canadian judges will look at: (1) the nature of the employment; (2) the employee’s duties and responsibilities; (3) the geographic scope of the employee’s activities; (4) whether the employee has access to truly confidential information; and

37 Editor: Connie Reeve, Blake, Cassels & Graydon LLP; Contributer: Courtney Lerman, Student-at-law
whether the employee has, or can develop through his or her employment, a “special relationship” with clients or suppliers.

As the law in Canada has developed, it is clear that in the context of the employment relationship the courts will only uphold non-competition clauses in exceptional cases. In Lyons v. Multari, the Ontario Court of Appeal affirmed and applied what it described as the “general rule” that non-solicitation clauses are to be preferred over non-competition clauses where non-solicitation clauses would adequately protect the company’s interests. In this leading case, decided in 2000, the Ontario Court of Appeal stated that:

The non-competition clause is a more drastic weapon in an employer’s arsenal. Its focus is much broader than an attempt to protect the employer’s client or customer base; it extends to an attempt to keep the former employee out of the business.

Absent evidence to the contrary, the courts will assume that an employee will honour his or her obligations with respect to the use of confidential information. Therefore, to persuade a court that additional protection (beyond the protection of confidentiality obligations) is required to protect the company’s interests, the company seeking the additional protection must be able to articulate what those interests are.

The courts have, however, recognized that a company’s “trade relationships” are entitled to protection. In another seminal Ontario case, these trade relationships were described in the following words:

[T]he substantial business asset of the plaintiff, namely, its trade attachment with its clients, is a vulnerable asset exposed to the depredations of competition in all forms and particularly competition from ex-employees.

To support a broad non-competition covenant a company must be able to identify a legitimate business interest beyond the protection of confidential information or trade relationships. Circumstances under which a company can do this (excepting cases where a non-competition covenant is obtained from a vendor on a sale of a business) are rare. Even in the case of non-solicitation covenants, the courts take great care to ensure that the covenants are reasonable in scope.

The jurisprudence is now replete with examples of cases where the courts have declined to enforce non-competition or non-solicitation covenants on the basis that the clauses went well beyond what was reasonably required to furnish appropriate protection to a former employer.

I. Summary of the Canadian Jurisprudence Regarding Geographic Limitations

Geographic limitations continue to be an important feature in the analysis of the

---

42 Ibid. at para. 31.
enforceability of restrictive covenants in employment contracts in Canada. In most circumstances, the lack of a geographic limitation will lead a court to determine that the impugned clause is unenforceable because it is too broad and unreasonable.\(^{44}\) This is especially true if the court finds that the effect of the non-compete clause is to essentially allow the employer to hold employees “in a form of servitude”.\(^{45}\) Some courts have considered the location of the employer’s business and clients in order to determine whether the covenant contains the narrowest geographic scope required for protection.\(^{46}\) It is difficult for an employer to demonstrate that the geographic scope described in a non-compete clause is reasonable and necessary if the court finds there is a less restrictive alternative, which would adequately protect the employer’s interests.\(^{47}\)

Courts have concluded that the position of an employee is a relevant factor to consider in determining an appropriate geographic scope for a non-compete clause.\(^{48}\) For example, lower level employees have been repeatedly found to warrant a narrower geographic restrictive covenant when compared to more senior employees. In addition, a court will consider the geographic region in which the employee operated to determine whether the impugned clause is reasonable. While some cases have determined that a non-compete clause should be limited to those geographic regions in which the employee operated,\(^{49}\) others have indicated that this might not be necessary where the employee had oversight responsibility for a broader geographic area.

The lack of a geographic limitation on a restrictive covenant may not always be fatal to the enforceability of the impugned clause. Recently one dissenting judge has offered the view that if an employer is involved in a virtual business where the geographic physical location of the service or client is of little importance, it might be demonstrated that a worldwide non-compete clause is necessary to protect the employer’s interests.\(^{51}\) In other situations, a court may find a non-compete clause that is silent with respect to its geographic scope to be reasonable because it is possible to infer a particular geographic region from the context, including the nature of the business, the industry in which the parties operate and the scope of the activities that are restricted.\(^{52}\) This may be the case if the non-compete clause prevents the employee from becoming involved with certain clients who are all located in a particular geographic region.

In any event, geographic limitations included in a restrictive covenant must be clear and


\(^{50}\) Dent Wizard (Canada) Ltd v. Catastrophe Solutions International Inc., 2011 ONSC 1456, 83 B.L.R. (4th) 11 (Ont. Sup. Ct.).


\(^{52}\) 6180 Fraser Holdings Inc. v. Ali, 2012 BCSC 247, 212 A.C.W.S. (3d) 213 (B.C. S. Ct.).
Moreover, Canadian courts will not re-write or read down overly broad contractual terms to re-state them in narrower terms.

II. Case Summaries

The following is a digest of recent Canadian cases which have considered geographic non-compete restrictions in employment contracts.

Supreme Court of Canada

*KRG Insurance Brokers (Western) Inc. v. Shafron*\(^5^4\)

In 1987, Morely Shafron sold his insurance company to KRG Insurance Brokers and the company changed its name to KRG Insurance Brokers (Western) Inc. (“KRG Western”). Shafron and KRG Western signed several employment contracts from time to time, each containing a similarly worded restrictive covenant stating that in the event that Shafron were to leave KRG Western for any reason other than termination without cause, he shall not carry on the business of insurance brokerage within the “Metropolitan City of Vancouver.” In 2000, Shafron left KRG Western and began working as an insurance broker with another agency in Richmond, British Columbia. KRG Western brought an action to enforce the restrictive covenant.

The trial judge, Parrett J., held that the covenant was unenforceable as the phrase “Metropolitan City of Vancouver” was not clear, certain nor reasonable.\(^5^5\) The British Columbia Court of Appeal overturned the decision using the doctrine of notional severance to read the phrase as “the City of Vancouver, the University of British Columbia Endowment Lands, Richmond and Burnaby.”\(^5^6\) The employee appealed the decision.

The Supreme Court of Canada held that the ambiguity of the phrase, “Metropolitan City of Vancouver” rendered it unenforceable and granted the employee’s appeal. The Court clarified the test to determine whether a restrictive covenant in an employment agreement is reasonable and enforceable. This analysis requires the Court to determine whether the terms of the restrictive covenant are unambiguous. The Court stated that a further step in the reasonableness analysis, as laid out in Elsley, involves assessing the geographic coverage and duration of a restrictive covenant.\(^5^7\) On the facts at hand, the Court held that as there is no legal definition of the term “Metropolitan City of Vancouver”, it is ambiguous and this ambiguity cannot be rectified by the courts. As an ambiguous restrictive covenant is *prima facie* unreasonable and unenforceable, the non-compete covenant was unenforceable. Further, the Court held that the doctrine of notional severance could not be applied to restrictive covenants to cure ambiguity. To do otherwise would invite employers to draft overly broad restrictive covenants.

---


\(^5^4\) *Ibid*.

\(^5^5\) 2005 BCSC 1611 (B.C. S.C.).

\(^5^6\) 2007 BCCA 79 (B.C. C.A.).

\(^5^7\) *Supra* note 3.
Alberta

Globex Foreign Exchange Corp. v. Kelcher

Kelcher, MacLean and Oliverio worked as traders for Globex Foreign Exchange Corp. ("Globex"), a foreign currency exchange business. In 2003, Globex required each of the employees to sign a Non-Competition and Non-Solicitation Agreement. The non-compete clause stated that for 12 months following the termination of their employment from Globex, the employees were not to compete with Globex in the City of Calgary. Two years later, Globex asked the employees to sign a new Non-Competition and Non-Solicitation Agreement stating that for a period of 18 months following termination, the employees would not compete “within the Country of Canada in any City or municipality in which Globex operates or conducts business in any manner.” Kelcher refused to sign the Agreement and resigned. MacLean likewise refused and was terminated. Oliverio signed the Agreement but resigned shortly afterwards. The three men established Axiom Foreign Exchange International Inc. and began competing with Globex in the foreign currency exchange business. Globex sought an injunction against the Defendants to prevent them from competing with Globex and soliciting their business.

In 2005, the Alberta Court of Queen’s Bench enjoined the men from competing and soliciting Globex clients. The Court held that although the geographic reach of the agreements was unreasonable, it could be corrected using notional severance. Applying this doctrine, the Court read the agreements as applying to “the cities of Calgary, Kelowna and Red Deer,” as it was only in these cities that the defendants had access to Globex clients and client information. The employees appealed this decision to the Alberta Court of Appeal, which overturned the lower court’s decision. Writing for the Court of Appeal, Hunt J.A. emphasized that notional severance was not appropriate in the context of restrictive covenants in employment agreements. Moreover, he held that the geographic scope was unreasonably broad. As such, the trial judge had erred in granting the injunctive relief.

Globex sought damages under the Non-Competition and Non-Solicitation Agreements and the matter went to trial. At trial, the Alberta Court of Queen’s Bench held the clauses were broader than what was necessary to protect Globex’s proprietary interest. Haweco J. wrote “the spatial and temporal features of the clause might not be too broad, but the prohibition against solicitation of clients was sufficient to provide whatever protection was justified without the outright prohibition against competing in any manner with the Plaintiff.” The employers appealed the decision to the Court of Appeal, which reversed the lower court’s decision. However, the Court of Appeal affirmed the finding of the trial judge that the non-competition clauses were overly broad. This case is currently under appeal to the Supreme Court of Canada.

58 Globex, supra note 14.
59 Ibid. at para. 99.
63 Ibid. at para. 62.
64 Globex, supra note 14.
65 Ibid. at para. 3.
Of interest to this paper is the opinion of the dissenting judge, Justice Slatter. In considering the lack of a geographic limit in the impugned clauses, he wrote “[t]he nature of the business was, however, to solicit clients by telephone. In that type of business it would make little difference whether the client, or alternatively the employee, was located in Calgary or elsewhere…This particular business was not sensitive to geographic location…As such, the absence of a geographic limit in the clause is not fatal to its validity”66.

Travel Co. v. Keeling67

The Travel Company Ltd. (“Travel Plus”), a small travel operation in Lethbridge, Alberta, employed Keeling from February 2000 to September 2004 as a travel consultant. Three months after Keeling’s commencement of employment, the president of Travel Plus asked Keeling to sign a one-page Employment Agreement. Later that year, the employees were asked to sign employment contracts which contained a restrictive covenant. Keeling signed the contract as requested. The non-compete clause in the agreement specified that, following termination, the employee would not work in a travel agency in Lethbridge or within a 100 mile radius for eight months. Three days after her employment with Travel Plus ended, Keeling began working for Uniglobe Choice Travel Ltd. Travel Plus brought an action against Keeling to recover damages.

The Court concluded that the restrictive covenant was unenforceable due to its geographic limits. Germain J. held that the law requires an employer to consider public policy and use the narrowest geographic scope necessary to protect the employer’s interest. On these facts, the Court held that a covenant restricting the scope to the City of Lethbridge and surrounding communities would have been sufficient in light of Keeling’s entry-level position.

British Columbia

6180 Fraser Holdings Inc. v. Ali68

The Plaintiffs operated six pharmacies under the name Medicine Shoppe Pharmacy. The company undertook a significant part of its business in care homes and other residential facilities. Ali and Lucarino were employees of the Plaintiff. Lucarino’s employment contract contained a non-competition clause which prohibited her for a period of one year following termination from performing “services for any customer of a Medicine Shoppe Pharmacy owned by the Company or an affiliate of the Company.”69 After Ali and Lucarino’s employment relationship ended, the Plaintiffs sought an injunction to enforce the restrictive covenants in the defendants’ employment agreements.

The Court held that while the non-compete clause did not specify a geographic area “…the Plaintiffs’ pharmacies are all located in the lower mainland of British Columbia. That combined with the nature of the business, limits the application of the restriction to a reasonable geographic area.”70 However, the Court also concluded that the scope of the clause was too

66 Ibid. at para. 166.
67 Keeling, supra note 9.
68 Supra note 15.
69 Ibid. at para. 9.
70 Ibid. at para. 16.
broad as it would prevent Lucarino from “performing any services for any customer of the plaintiffs.” As such, the Court held that the Plaintiffs were not entitled to an injunction.

**MacMillan Tucker MacKay v. Pyper**

Pyper worked as an articling student at the small law firm of MacMillan Tucker MacKay (“MacMillan”) in Cloverdale, British Columbia in 2001. In February 2002, Pyper signed an employment contract to work for the firm as an associate. The contract contained a non-competition covenant which stated that “for a period of three years after termination of…employment…[Pyper would not] practice law within a radius of five miles” from MacMillan’s office. In January 2009, Pyper resigned from MacMillan and discussed his intention to establish his own law firm at a location less than 5 miles from the MacMillan office. MacMillan refused Pyper’s request to waive the restrictive covenant and applied for an interlocutory injunction restraining Pyper from practicing law within 5 miles from its office.

The Court held that the spatial and time restrictions were unreasonable in the circumstances as it went beyond what was reasonably necessary to protect MacMillan’s proprietary interests. Pearlman J. pointed to the fact that the covenant could have simply restricted the defendant from working for clients of the firm. For these reasons, the Court found that the Plaintiff failed to make a *prima facie* case that the restriction was reasonable and the injunction was not granted.

**Corporate Images Holdings Partnership v. Satchell**

In 2003, when Satchell began working for Corporate Images Holdings Partnership (“Corporate Images”), a manufacturer of ready-to-assemble furniture (primarily television stands), he signed a non-competition/non-solicitation agreement which stated that he would not work in “any business undertaking which is substantially similar or competitive with [Corporate Images]…within the United States and Canada” for a period of 24 months. In 2008, Satchell resigned and immediately began working for Z-Line, a direct competitor of Corporate Images. Z-Line was incorporated in Nevada, but carried on business in San Ramon, California. Corporate Images sought an interlocutory or interim injunction to enforce the non-competition covenant.

The Court held that a 24 month covenant extending to all of North America was overbroad and not required to protect Corporate Images’ interests, particularly since the company provided no evidence as to the specific areas within the two countries where the company sold its products. Allan J. also noted that Satchell’s job description with Z-Line was to open markets in Mexico, Europe and Latin and South America, geographic areas outside the scope of the covenant. Thus, the injunctive relief was not granted as the Plaintiff failed to make a strong *prima facie* case that the clause was enforceable.

---

72 *Supra* note 10.
74 *Supra* note 12.
Manitoba

Duncan Sabine Collyer Partners LLP v. Campbell\textsuperscript{76}

As a result of a merger with his previous accounting firm, Campbell became employed as an accountant for Duncan Sabine Collyer Partners LLP ("DSCP") in 2005. The firm conducted its business in the town of Boissevain, Manitoba. At the time of the merger, DSCP required Campbell to sign an employment agreement which contained a non-competition clause. The clause stated that for three years following his employment at DSCP, Campbell was not to "...carry on or be engaged in or be concerned with or interested in or advise or attempt to service other clients of the employer."\textsuperscript{77} Campbell resigned from DSCP in June 2009 and established his own accounting firm in Boissevain in December of that year.

DSCP brought an action to enforce the restrictive covenant. Campbell moved to dismiss the action in a summary judgement on the basis that the covenant was unenforceable for several reasons, including the clause’s lack of geographic limitation. DSCP argued that the covenant did not require geographic definition as it applied to all clients of DSCP.

The Court rejected DSCP’s argument and found that the covenant failed on this, and several other grounds. With respect to the geographic scope, Master Harrison wrote

\[ \text{[t]his Court certainly understands [DSCP’s] position that as our economy becomes increasingly virtual, in a computing sense, the commercial ties to physical location become much less important than in the past. However, in the case at bar, there is no evidence before the Court that the defendants are carrying on their calling specifically regarding their acquisition of business by the internet and/or social networking.} \textsuperscript{78} \]

The Court awarded summary judgement in favour of Campbell.

Ontario

Mason v. Chem-Trend Limited Partnership\textsuperscript{79}

Mason worked as a technical salesperson for Chem-Trend Limited Partnership ("Chem-Trend"), a company involved in reformulating, manufacturing and selling release agents and related processing chemicals. He signed the Chem-Trend Confidential Information Guide and Agreement ("CIGA") which stated that for one year following employment, he would not "...engage in any business or activity in competition with the Company by providing services or products to, or soliciting business from, any business entity which was a customer of the Company during the period in which [he] was an employee of the Company..."\textsuperscript{80}

\textsuperscript{76} Duncan, supra note 14.
\textsuperscript{77} Ibid. at para. 26.
\textsuperscript{78} Ibid. at para. 63.
\textsuperscript{79} Mason, supra note 11.
\textsuperscript{80} Ibid. at para. 3.
terminated, allegedly for cause, after 17 years of employment. Mason brought an application to the Court to determine whether the restrictive covenants in the agreement were enforceable.

In the analysis of the reasonableness of the non-compete clause, the application judge considered the clause’s lack of geographic scope and held that it was reasonable in light of the world-wide nature of Chem-Trend’s operations. The Ontario Court of Appeal allowed the appeal, finding that the clause was over-broad in light of Mason’s position, his limited sales territory and because it would not be possible for Mason, who did not deal with all of the Company’s customers worldwide, to know who was a Chem-Trend customer and who was not.

*Dent Wizard (Canada) Ltd v. Catastrophe Solutions International Inc.*

Robert Pietrantonio owned and operated Dent Wizard Canada (“DWC”) as the exclusive Canadian franchisee of Dent Wizard International (“DWI”) from 1991-2000. Both businesses provided paintless dent repair (“PDR”) services. In 2001, Pietrantonio, sold DWC to DWI and entered into an employment contract which maintained his position as the head of DWC. In 2007, Pietrantonio signed a Termination Agreement (the “Agreement”). The Agreement included a clause specifying that the employee will not compete with or be “interested in any business activities which are substantially similar to, or competitive with, the business carried on by DWC” for six years following termination of employment.

On July 12, 2010, Calgary experienced an intense hail storm. DWI’s international response team deployed technicians from the United States to Calgary; however, DWI’s parent company ordered the team to return to the United States due to tax concerns. Pietrantonio learned of this situation and decided to establish a new company, Catastrophe Solutions International (“CSI”) to respond. CSI immediately began providing PDR services and employed two former executives of DWC. By the time DWI entered Calgary upon resolution of their tax issue, there was very little PDR work remaining as many of the companies preferred to work with CSI. DWC and DWI brought an action against CSI and Pietrantonio to recover damages and enforce the restrictive covenants.

The Court held that the non-compete clause in the Agreement did not overreach by having a geographic scope restricting Pietrantonio from working in PDR in the whole of Canada despite the fact that “more than 80% of [DWC’s] business was conducted in Ontario and eastern Canada…[with] small operations in Calgary and Vancouver”. This was because Pietrantonio was a very senior employee, who was experienced, sophisticated and had ready access to legal advice to review the terms of the Agreement. The Court did, however, find that the six year duration of the clause was excessive, because “at the start of the restrictive period, Pietrantonio had reduced his involvement in the day-to-day affairs of DWC to ‘zero’.”

---

81 2010 ONSC 4119, 84 C.C.E.L. (3d) 311 (Ont. Sup. Ct.).
82 Supra note 13.
83 Ibid. at para. 30.
84 Ibid. at para. 37.
85 Ibid. at para. 72.
Allan and Kienapple sold commercial insurance for Staebler Company Ltd. (“Staebler”). The employment contracts signed by both employees stipulated that they were not to “conduct business with any clients or customers of H.L Staebler Company Limited that were handled or serviced by you at the date of your termination.” On October 15, 2003, both employees resigned and began working in a similar capacity for Stevenson & Hunt Insurance Brokers (KWC) Ltd. (“Stevenson & Hunt”). By October 29, 2003, approximately 118 companies moved their business from Staebler to Stevenson & Hunt.

The Ontario Superior Court of Justice upheld the non-compete clause and ordered the employees and Stevenson & Hunt to pay approximately $2 million in damages. The Ontario Court of Appeal overturned the decision finding “[t]he absence of a geographical limit combined with the blanket prohibition on conducting business renders the Restrictive Covenant ‘overbroad’ and unenforceable. It unreasonably restricts the Employees’ economic interests and goes beyond that which is reasonably necessary to protect Staebler’s proprietary interest.”

In this case, the plaintiff software company, Trapeze, sought an interlocutory injunction to enforce both non-competition and non-solicitation clauses under which the defendant, Bryans, agreed not to become involved with a competitor of Trapeze or contact or solicit any Trapeze clients within twelve months of leaving the employ of the company.

Trapeze is an industry leader in the development and commercialization of transit software and a large part of its business consists of marketing, selling, installing and servicing automated computer software for the transportation industry. The transportation software industry is a very specialized and highly competitive business where only a few companies compete for a limited number of bids annually.

Bryans signed a Proprietary Rights Agreement with Trapeze in June 2004. He was employed as an ‘Outside’ Account Manager which meant he traveled directly to the clients’ sites to service their software needs. He had 14 specific accounts located in New Mexico, Texas, Ohio, Utah and Louisiana.

The Proprietary Rights Agreement which was at issue in this case contained a broad non-competition clause covering Canada, the United States or anywhere else in the world where Trapeze marketed its product. The agreement also contained a non-solicitation clause that prevented Bryans from contacting or soliciting any clients of the company for the purpose of selling or supplying any products or software services which are competitive with the products or services supplied by the Trapeze at the time of termination. Additionally, the agreement

---

86 Supra note 7.
87 Ibid. at para. 18.
89 Supra note 7 at para. 53.
contained a clause confirming the reasonableness of the non-competition and non-solicitation obligations.

In late 2006, Bryans left Trapeze and joined what the Court found to be a competing company, Transched. There was evidence to suggest that Bryans met with some of Trapeze’s customers upon joining Transched, although these were not customers with whom he had dealt while he was employed with Trapeze. In denying Trapeze’s request for an interlocutory injunction, the judge, while finding the temporal restriction of 12 months reasonable, found that the geographic scope of the non-competition agreement was unreasonably broad as it encompassed “anywhere else in the world where Trapeze marketed its products or services during the period of employment of the defendants.” The scope of the geographical restriction was overly broad because it prevented Bryans from working in such areas as the United Kingdom and Europe with which he had no connection while working for Trapeze.

Additionally, the court found the non-solicitation clause unenforceable as it was unreasonably broad and prevented Bryans from soliciting any company anywhere in the world that was a client of Trapeze, despite the fact he had only worked in parts of North America. Another problem with the non-solicitation clause was that it unreasonably prohibited Bryans from contacting any Trapeze clients, regardless of whether or not he had any relationship with them during his employment with Trapeze.

*Madison Chemical Industries Ltd. v. Walker.*

Walker signed an employment agreement with Madison Chemical Industries Ltd. ("Madison") on December 23, 1994. After some hesitation, Walker signed a Secrecy and Non-Competition Agreement, which included the following clause:

The employee will not at any time during his or her employment, or for a period of two years after his or her employment with the Company: (a) be associated in any way with any company or business which offers or sells goods or services in North America which compete with any goods or services of the Company; nor (b) contact, solicit business from or accept business from any third party contacts names in the Employer’s computer database as of the date of such ending employment.

Walker resigned from his position in January 1999. Madison sought injunctive relief to enforce the non-compete clause of the employment agreement.

The Ontario Superior Court of Justice found that the temporal and spatial features of the clause above were too broad to be upheld as reasonable. While employed by Madison, Walker worked mainly with clients located in the mid-western and western United States. Madison had practically no business in Canada of the type in which Walker was involved. In fact, only 5% of Madison’s business came from Canada. There was no evidence presented at trial that

---

92 *Madison, supra* note 9.
demonstrated Madison had business south of the United States. The Court concluded that,

[w]hile I recognize both that Madison’s business had a geographically broad base and that it is not possible to predict in advance precisely where any particular employee will develop his business contacts for his employer, I nevertheless have no difficulty concluding that the territorial limits against competition were unreasonable both in the public interest and particularly insofar as they affected Mr. Walker.94

**Nova Scotia**

*KN Umlah Insurance Agency Ltd v. Christie*95

KN Umlah Insurance Agency (“Umlah”) hired Christie in 2001 as an insurance agent and undertook to train him and pay for his licensing fees. On Christie’s first day, Umlah asked the trainees to sign an Employment Contract (the “Contract”). The Contract stated that in light of the great expense required to train the employee, “upon termination of the employee’s employment within 60 months of the commencement date, either by the employee in order to be employed by any other general insurance provider operating within the province of Nova Scotia or by the company for cause…the employee shall repay to the company the training costs as losses suffered by the company as a result of the employee’s actions...”96 The Contract further stated that this amount would be $15,000 if termination occurred more than two years but less than five years from the commencement date. Christie resigned from Umlah in May 2004 and immediately joined AON, a competitor. Umlah brought a claim against Christie for the repayment of the training expenses incurred.

Adjudicator Richardson first found that there was no consideration for Christie’s agreeing to the terms of the contract, as he had already commenced employment on terms that did not include a financial penalty for accepting employment with a competitor. However, the adjudicator went on to find the clause was a restraint of trade as its practical effect meant that “the employee cannot work for a competitor anywhere in Nova Scotia within that five year time frame.”97 The Court held that the time and spatial restrictions were not a reasonable restraint of trade. The Court considered the unique nature of the insurance business, which requires insurance agents to undergo a strict training and licensing regime. However, the Court reasoned that training employees was simply a cost of business. Finally, the Court cautioned that upholding the restrictive covenant in this case would allow insurance companies to hold employees in a form of servitude and fail to remunerate them according to the value added by their training.

---

95 *Supra* note 8.
Quebec

Jean v. Omegachem Inc.\textsuperscript{98}

Jean joined Omegachem as a chemist in 2002. His employment offer included the requirement that he sign confidentiality and non-compete agreements. Jean accepted the offer and shortly thereafter signed a confidentiality agreement. After three years had passed, Jean was promoted to the position Production Director. At this time Omegachem presented Jean with a non-compete agreement. The duration of the non-compete agreement was 24 months. The geographic scope included the areas of Canada, the United States and Europe. In addition, the non-compete agreement applied to particular pharmaceutical products and companies. Jean did not accept the terms of the agreement and negotiations ensued. A year and a half later, Omegachem proposed a different non-compete agreement which would last for 12 months, however, the geographic scope was expanded to “everywhere in the world”. Jean refused to accept the terms of the non-compete agreement unless his employer would agree to provide compensation during the 12 month duration of the contract. The two parties could not come to an agreement on the provisions of the non-compete contract, and as a result, Jean was dismissed from his employment position in April 2007.

The Quebec Court of Appeal unanimously found that Omegachem did not have just cause to dismiss Jean from his employment. This conclusion was based on sections 1373 and 2089 of the \textit{Civil Code of Quebec} which require that obligations in contracts be “determinate or determinable” to be valid.\textsuperscript{99} In addition, non-compete clauses must be limited in “time, place and type of employment, to whatever is necessary for the protection of the legitimate interests of the employer”.\textsuperscript{100} The Court found that Omegachem should have presented Jean with the non-compete agreement at the start of his employment in order to create a legally valid contractual obligation. The abstract reference to a non-compete agreement in the initial offer letter was not sufficient as a party cannot be legally bound to an obligation without having been presented with the substance of the obligation. The Court also found that the geographic reach of the non-compete agreement was overly broad and therefore unreasonable. In this case, the universal scope of the non-compete agreement was not demonstrated as necessary to protect the legitimate interests of Omegachem.

Saskatchewan

Garda Security Corp. v. Ramirez\textsuperscript{101}

As part of an acquisition of his employer by Initial Security Services (“Initial”), Ramirez signed a Confidentiality and Non-Competition Agreement (the “Agreement”). The Agreement stated that during employment and for twenty-four months following cessation of employment, the employee is not to “induce or attempt to induce any...customer...to cancel or otherwise defer services provided by Initial in respect to guards, watchmen and patrols in favour of other or

\textsuperscript{98} 2012 QCCA 232.
\textsuperscript{99} L.R.Q., c. C-1991, s. 1373.
\textsuperscript{100} \textit{Ibid.}, s. 2089.
\textsuperscript{101} (2011), 206 A.C.W.S. (3d) 804 (Sask. Q.B.).
cancellation of services.”\textsuperscript{102} Following further mergers and acquisitions, Ramirez came to work for Garda Security Corp. ("Garda") as Operations Manager. Ramirez resigned in December 2009 and shortly thereafter, he licensed AAA Security and began operations out of the same building in which Garda was located. Garda brought an application to restrain and enjoin the defendant from soliciting its customers or disclosing confidential information.

The Court noted that the non-compete clause in the Agreement did not contain a geographic restriction. At the time Ramirez signed the Agreement, Initial only worked in the province of Saskatchewan. Garda, however, operates throughout Canada. Garda argued that the restrictive covenant ought to be read by the Court as limited to those areas where Garda customers are located. The Court rejected this argument and found the covenant unreasonable, pointing to "[t]he lack of express geographic restriction contained in the agreement, the overall length of Ramirez’ employment (from 2004-2009, first with Initial and then with Garda) and the fact Garda’s scope of customers extends well beyond the reach of Saskatchewan..."\textsuperscript{103} Schwann J. noted that the result of the acquisition is that "...the spatial features and breadth of the restriction suddenly enlarged to cover Garda’s scope of operations across Canada."\textsuperscript{104} For these reasons, the Court held the covenant was unreasonable and could not be enforced.

\textit{Thienes v. Godenir}\textsuperscript{105}

The four Plaintiffs were optometrists working for Swift Current Vision Care Clinic ("SCV") in Swift Current, Saskatchewan. The Defendant, Godenir, signed an Associates Agreement (the "Agreement") as a young optometrist with little practical experience. The Agreement specified that Godenir would work "as an independent contractor" three days a week at SCV and two days a week at clinics owned by Dr. Thienes in nearby Shaunavon and Maple Creek beginning August 23, 2004 for a period of one year. The Agreement contained a covenant which held that upon the termination of the contract by the Associate, the Associate was "not [to] engage in optometry practice within 150 kilometres of Swift Current, Saskatchewan, for a period of two years..."\textsuperscript{106} On September 22, 2005, the Agreement was extended to April 30, 2006. This new expiry date passed without further extension. In November 2006, Godenir advised SCV and Dr. Thienes that she was starting her own optometric practice and buying a business called Optical Image. SCV brought an action against Godenir for breach of the non-competition clause.

The Court of Queen’s Bench for Saskatchewan held that although the Agreement expired in April 2006, the restrictive covenant survived the Agreement for two years from the expiry date. Koch J. held that the proprietary interest held by the Plaintiffs could have been adequately protected by a non-solicit covenant. Further, the Court held that the geographic restriction of a 150 km radius was "extremely unreasonable" in the circumstances, particularly given that the Plaintiffs served a population as large as 80,000 people. As such, the public interest was not served by restricting competition in this regard. Thus, the non-compete covenant was held to be unenforceable.

\textsuperscript{102} Ibid. at para. 5.
\textsuperscript{103} Ibid. at para. 33.
\textsuperscript{104} Ibid. at para. 31.
\textsuperscript{105} 2011 SKQB 271, 380 Sask. R. 145 (Sask. Q.B.).
\textsuperscript{106} Ibid. at para. 7.
In Canada, geographic limitations remain an important feature of restrictive covenants in employment agreements. Courts have demonstrated a reluctance to enforce worldwide or otherwise over-broad non-compete clauses absent cogent evidence that such provisions are truly necessary to protect the employer’s interests and that a more limited restriction will not suffice. Moreover, the recent cases confirm that the narrower the scope of the impugned clause, the more likely it will be found enforceable by a court.

CONCLUSION

Plainly, the Internet and the world-wide nature of commerce in the 21st Century combine to raise the stakes when it comes to forum selection provisions and geographic restrictions. Claims of the obsolescence of geographic restrictions remain premature at best. Instead, more care than ever must be directed to crafting employment contract language to deal with worldwide issues. “Reasonable” geographic restrictions, even if worldwide (explicitly or implicitly) hold the promise of enforceability, perhaps more so than ever. In the U.S., blue-penciling may bail out a far-reaching non-compete. No such luck in Canada. Get it right the first time or be doomed. Only time will tell if U.S. courts inch toward the Canadian approach to protect employees from overzealous employers intent on protecting worldwide markets.