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Validity of Contracts Not to Compete

Frederick E. Burdett

Under the common law, the courts have sanctioned the rights of more than one person to use the same mark where they have become so entitled through concurrent lawful use.[40] However, under the Act of 1905 registration was denied except to the first user. The New Act allows concurrent registration of the same or similar marks to more than one registrant where they have become entitled to use such marks as a result of the concurrent lawful use.[41]

The Act of 1905 required that a trademark be affixed to the article itself.[42] Under the New Act physcial affixation is not required. The use of the mark on displays associated with the goods is sufficient to create rights[43] Thus service marks, advertising slogans, collective marks, certification marks, etc., will come within the Act.

The New Act should go a long way toward clarifying the law by bringing the law of unfair competition and trademark infringement together on the same common ground. It is expressly stated that one of the purposes is to protect persons engaged in "commerce" against unfair competition, commerce being defined as "all commerce which may be lawfully regulated by Congress."[44] A mark used wholly within the borders of one particular state cannot be registered under the Act and must therefore be protected by the law of that State. However the *Erie v. Tompkins*[45] doctrine would not apply where a local product was infringing lupon a product in interstate commerce.[46]

J. RICHARD PLUMB.

VALIDITY OF CONTRACTS NOT TO COMPETE

Recently, the Wyoming Supreme Court considered the question of the validity of an employment contract in which the employee, a mechanic, agreed not to compete with his employer within the counties of Sheridan, Johnson, and Campbell, for a period of seven years after termination of the contract.[1] The court held that the contract was invalid since the primary purpose of the contract was to prevent the employee from quitting present employment, and not for the purpose of protecting employers trade secrets, and further, that the time and territorial restrictions of the covenant were unreasonable.

This is a case of first impression in Wyoming,[2] and the decision places the law in this state relative to such covenants in accord with the general law on the matter in other states.

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40. Hanover Star Milling Co. v. Metcalf, 240 U. S. 403, 36 Sup. Ct. 357, 60 L. Ed. 713 (1916).
41. 60 Stat. 428, 15 U. S. C. A. Sec. 1052 (Supp. 1946).
42. 33 Stat. 724 (1905), as amended, 15 U. S. C. A. 81.
43. 60 Stat. 429, 15 U. S. C. A. 1053, 1054 (Supp. 1946).
44. 60 Stat. 443, 15 U. S. C. A. 1127 (Supp. 1946).
45. 304 U. S. 64, 58 Sup. Ct. 817, 82 L. Ed. 1188, 114 A. L. R. 1487 (1938).
46. Texas and Pacific Ry. v. Abeline Cotton Oil Co., 204 U. S. 426, 27 Sup. Ct. 350, 51 L. Ed. 553 (1907); Postal Telegraph-Cable Co. v. Warren-Godwin Lumber Co., 251 U. S. 27, 40 Sup. Ct. 69, 64 L. Ed. 118 (1919).

1. Ridley v. Krout, 180 P. (2d) 124 (Wyo. 1947).
2. The court recognized the difference between the instant case and Dutch Maid Bakeries v. Schleicher, 58 Wyo. 374, 131 P. (2d) 630 (1941).

In the instant case, the Court cited with approval the dicta, "A man's right to labor in any occupation in which he is fit to engage is a valuable right, which should not be taken from him or limited, by injunction, except in a clear case showing the justice and necessity therefor,"[3] thus indicating that under proper conditions the contract might have been enforced had certain elements been present which would have shown the "justice and necessity" of the subject contract. The question of validity of such contracts, then, will turn on the presence of such elements as will make the contract justifiable.

In early Common Law, unlimited covenants of an employee ancillary to an employment contract in which the employee agreed not to exercise the trade of the employer in direct competition with the employer, or in the employ of another in competition with the employer, were held uniformly invalid, apparently on the basis of public policy and a desire to stimulate and encourage trade.[4]

Until the early part of the twentieth century, few courts made any distinctions between covenants not to compete which were ancillary to contracts of employment, ancillary to the sale of a business, or ancillary to the dissolution of a partnership. Failure of the courts to distinguish between such covenants led to a fusion of principles which were used interchangeably from one case to another.[5] Courts seemed to look at the covenant itself, and the elements of time and space were examined to determine if the covenant was general or partial. If the restraint imposed was unlimited in both time and space, the restraint was said to be general and the contract was held invalid; if the restrain were partial, that is, limited in both time and space, the contract was valid.[6]

The leading case of *Mitchell v. Reynolds*[7] affirmed the necessity of determining whether or not the contract was general or partial, but went farther by setting out that only if the contract were partial and not unreasonable[8] would it be valid. But in *Horner v. Graves*,[9] the court disregarded the necessity of determining whether or not the restraint was general or partial, and challenged the

3. Standard Oil Company v. Bertelsen, 186 Minn. 483, 243 N. W. 701, 703 (1932).
4. Anonymous Case, Moore 115, 72 Eng. Rep. 477 (K. B. 1578); Diers Case, Y. B. 2 Hen 5, vol. 5, pl. 26 (D. B. 1415); Ipswich Tailors Case, Coke 54a, 77 Eng. Rep. 1218 (K. B. 1614).
5. Contracts ancillary to the lease of a bakeshop, Mitchell v. Reyonlds, 1 P. Wms. 181, 24 Eng. Rep. 347 (Ch. 1711); employment contract, Hitchcock v. Coker, 6 Adol. & E. 438, 112 Eng. Rep. 167 (K. B. 1837); ancillary to the sale of a business, Leather Cloth Co. v. Lorosont, 32 L. J. Ch. 727, 9 Eq. Cas. 345 (Ch. 1869); employment contract, Rousillon v. Rousillon, 14 Ch. Div. 351 (Ch. 1880); sale of patents and business, Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co., Ltd., A. C. 535 (H. L. 1894).
6. Broad v. Jollyffe, Cro. Jac. 596, 79 Eng. Rep. 509 (K. B. 1620); Rogers v. Parrey, 2 Bulst. 136, 80 Eng. Rep. 1013 (K. B. 1613); Prugnell v. Gosse, Aleyn 67, 82 Eng. Rep. 919 (K. B. 1648).
7. 1 P. Wms. 181, 24 Eng. Rep. 347, 349 (Ch. 1711).
8. The test of reasonableness of the contract was a matter of public policy which involved several considerations: (a) Does the contract deprive the promissee of a livelihood? (b) Does the contract deprive the public of the services of the party restrained? (c) Does the contract destroy or discourage industry or enterprise, diminish ingenuity and skill? (d) Discourage competition and increase prices? (6) Encourage monopolies? If these questions could, from the facts of the case, be answered negatively, the contract was adjudged reasonable and valid.
9. 7 Bing. 744, 131 Eng. Rep. 284 (C. P. 1837).

contract only on the basis of its reasonableness[10] in relation to the interests the employer was seeking to protect. The introduction of this rule of reasonableness caused the English courts and those in America to fall into two distinct groups: those which held with the doctrine of *Mitchell v Reynolds*,[11] and those which adopted the rule of *Horner v. Graves*.[12]

In 1853 there was the first judicial recognition of a need, in the cases of contracts of employment, to balance the interests of the parties to such contracts, between two theories: Freedom of Contract, and Freedom of Trade and the interest of the public in the use of men's talents.[13] The attempt to balance the interests of the parties resulted in the recognition of the principle that, since there is more freedom of contract as between the buyer and seller of a business, or parties to the dissolution of a partnership, on the one hand, than between an employer and an employee on the other, different considerations should apply.[14] Opinions of courts on this question are now uniform, and courts will be more reluctant to uphold contracts between employer and employee than those ancillary to the sale of a business or dissolution of a partnership.[15]

The general rule at present is that the validity of contracts restraining an employee from entering a competitive business after termination of employment will depend upon the special circumstances shown which will make the contract reasonable.[16] These special circumstances are: (1) That there must be trade

10. Reasonableness was determined by considering "whether the restraint imposed is such as to afford only a fair protection to the interest of the party in favor of whom it is given, and not so large as to interfere with the interest of the party in favor of whom it is given, and not so large as to interfere with the interest of the public."

11. Ward v. Byrne, 5 M. & W. 548, 151 Eng. Rep. 232 (C. P. 1939); Hinde v. Gray, 1 Man. & G. 195, 133 Eng. Rep. 302 (C. P. 1940); Alger v. Thatcher, 19 Pick. 51, 31 Am. Dec. 119; Keeler v. Taylor, 3 Smith 467, 53 Pa. Rep. 467, 91 Am. Rec. 452 (1866).

12. Tallis v. Tallis, 1 E. & B. 391, 118 Eng. Rep. 482 (K. B. 1853); Wallis v. Day, 2 M. & W. 273, 150 Eng. Rep. 759 (Ex. Ch. 1837). Rousillon v. Rousillon, 14 Ch. Div. 351 Ch. 1880); Carter v. Alling, 43 Fed. 208 (C. C. A. 2nd Cir. 1890); Diamond Match v. Roeber, 106 N. Y. 473, 13 N. E. 419 (1887).

13. Tallis v. Tallis, 1 E. & B. 391, 118 Eng. Rep. 482 (K. B. 1853).

14. "Different considerations must apply in cases of apprenticeships and cases of that sort, on the one hand, and cases of the sale of a business or dissolution of a partnership on the other," and again, "There is obviously more freedom of contract between buyer and seller than between master and servant and a person seeking employment." See Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co., Ltd., A. C. 535, 565 (H. L. 1894); Mason v. Provident Clothing and Supply Co., Ltd., A. C. 724, 738, 739 (H. L. 1913).

15. See Keeler v. Taylor, 3 Smith 467, 53 Pa. Rep. 467, 468-470, 91 Am. Dec. 452 (1866); Milwaukee Linen Supply Co. v. Ring, 210 Wis. 467, 246 N. W. 567, 569 (1933); Thomas W. Briggs Co. v. Mason, 217 Ky. 269, 289 S. W. 295, 297 (1926); that such covenants are prima facie void, see Morris v. Saxelby, A. C. 688, 694 (H. L. 1916); Mason v. Provident Clothing Supply Co., Ltd., A. C. 724, 735 (H. L. 1913); McCluer v. Super Maid Cook-Ware, 62 F. (2d) 426 (C. C. A. 10th 1932); or are void by statute, D. F. Burger Creamery Co. v. Deweerdt, 263 Mich. 366, 248 N. W. 839 (1933); Brown v. Williams, 166 Ga. 804, 144 S. E. 256 (1928). But cf. Eureka Laundry v. Long, 146 Wis. 205, 131 N. W. 412 (1911).

16. Kadis v. Britt, 224 N. C. 154, 29 S. E. (2d) 543 (1944); See Roy v. Bolduc, 34 Atl. (2d) 479, 480, 149 A. L. R. 630, 631 (Me. 1943); Clark Paper Co. v. Stenacher, 236 N. Y. 312, 140 N. E. 708, 710 (1923).

secrets in connection with the employer's business which require protection.[17] The existence of such trade secrets is primarily a matter of fact which must be determined by the nature or character of the business.[18] (2) That there must be a real risk of disclosure of the secrets by the employee so as to require protection for the employer.[19] The relation of the employee to the secrets must be shown. If the employee was only factually aware of the secret, the relationship will seldom be sufficient to validate the contract, rather, the employee must be so closely associated with the secrets that there is a real risk to the employer that such secrets will be divulged or used for the purpose of deflecting customers.[20] This cannot be shown by attacking the moral character of the employee, for it is not a matter of integrity or honor. Nor can it apply to the skill or knowledge which the employee has learned during the course of employment.[21] (3) And, if the above conditions are met, courts will uniformly uphold the contract, if the restraint imposed by the contract is no wider than will reasonably protect the employer from possible misuse of the trade secrets or customer lists by the employee who has learned them through his employment connection.[22]

In considering the territorial restriction in the covenant, it appears, that in order for such a limitation to be reasonable, it must be no more extensive than the limits over which the employer's business extends, or by a reasonable allowance, may be extended.[23]

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17. Trade secrets are of two types: (a) Trade Secrets, that is, secret materials or processes used in the manufacture of the employers products, and price lists; and (b) Customer Lists, both those to whom he sells his products and those from whom he purchases materials to manufacture those products. See Thomas W. Briggs Co. v. Mason, 217 Ky. 269, 289 S. W. 295, 297 (1926); Peabody v. Norfolk, 98 Mass. 452, 454 (1868); Carter v. Alling, 43 Fed. 208, 213 (C. C. A. 2nd 1890); Kaddis v. Britt, 244 N. C. 154, 29 S. E. (2d) 543, 547 (1944).
18. See Sherman v. Pfefferkorn, 241 Mass. 468, 135 N. E. 568-571 (1908); Clark Paper & Mfg. Co. v. Stenacher, 236 N. Y. 312, 140 N. E. 708, 710 (1923); Samuels Stores v. Abrams, 94 Conn. 248, 108 Atl. 541, 543 (1919).
19. See Magnolia Metal Co. v. Price, 65 App. Div. 276, 72 N. Y. S. 792, 795 (1901); Clark Paper & Mfg. Co. v. Stenacher, 236 N. Y. 312, 140 N. E. 708, 711 (1923); May v. Young, 125 Conn. 1, 2 Atl. (2d) 385, 388 (1938).
20. See Thomas W. Briggs Co. v. Mason, 217 Ky. 269, 289 S. W. 295, 298 (1926); Federal Laundry Co. v. Zimmerman, 218 Wis. 211, 187 N. W. 335, 336 (1922); Carter v. Alling, 43 Fed. 208, 215 (C. C. A. 2nd 1890).
21. "An employer cannot prevent his employee from using the skill or knowledge in his trade or profession which he has learned in the course of his employment by means of directions or instructions from the employer." Sir W. C. Leng & Co. v. Andrews, 1 Ch. 763, 774 (Ch. 1909); See Morris v. Saxelby, A. C. 688, 709 (H. L. 1916); Clark Paper & Mfg. Co. v. Stenacher, 236 N. Y. 312, 140 N. E. 708, 711 (1923).
22. Cali v. National Linen Service Corp. 38 F. (2d) 35 (C. C. A. 5th 1930); Racine v. Bender, 141 Wash. 606, 252 Pac. 115 (1926); Moskin Bros. v. Swartzberg, 199 N. C. 539, 155 S. E. 154 (1930); that the restriction must not impose undue hardship upon the employee, see, Samuels Stores v. Abrams, 94 Conn. 248, 108 Atl. 541, 544 (1919); Thomas W. Briggs Co. v. Mason, 217 Ky. 269, 289 S. W. 295, 297, 298 (1926); Milwaukee Linen Supply Co. v. Ring, 210 Wis. 467, 246 N. W. 567, 569 (1933); that due regard must be had for the public interest, see Sternberg v. O'Brien, 48 N. J. Eq. 370, 22 Atl. 348, 349 (1891); Cropper v. Davis, 243 Fed. 310, 313 (C. C. A. 9th 1917); professional contract, see Granger v. Craven, 159 Minn. 296, 199 N. W. 10 (1910). "A restraint that is unreasonable as to defendant is prejudicial to the public, and is therefore, unenforceable." Morris v. Saxelby, A. C. 688, 738 (H. L. 1916).
23. Any place its business was carried on was held unreasonable, Whiting Milk Co. v. O'Connel, 277 Mass. 468, 179 N. E. 169 (1931); within the cities of Wyemouth, Hingham and Braintree held invalid as to employee, Sherman v. Pfefferkorn, 241 Mass. 468, 135 N. E. 568 (1908); within the city held reasonable, Dow v. Gotch, 113 Neb. 60, 201 N. W. 655 (1924).

Courts are not in accord as to what may constitute a reasonable length of time for the operation of the negative covenant, but it is generally agreed, that the time restriction cannot be for a greater length of time than is actually needed for the protection of the employers interest.*24*

The above discussion probably indicates factors the Wyoming Court had in mind when it intimated it would enforce such a contract in a proper case of "justice and necessity". The element of "necessity" is probably to be found in the existence of trade secrets, and "justice" in the reasonableness of the contract to protect such trade secrets, without going further with the evident purpose of preventing the employee from terminating the contract.

FREDERICK E. BURDETT.

24. For five years held unreasonable, New York Linen Supply and Laundry Co. v. Schatcher, 125 Misc. 805, 212 N. Y. S. 72 (1925); two years held reasonable, May v. Young, 125 Conn. 1, 2 A. (2d) 385 (1938); one year held reasonable, Tolman Laundry, Inc. v. Walker, 171 Md. 7, 187 Atl. 836 (1936).