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Injunctions--Covenant of Employee Not to Compete--Validity of Extensive Territorial Restrictions--Divisibility

Rudolph E. Hagberg
West Virginia University College of Law

INJUNCTIONS — COVENANT OF EMPLOYEE NOT TO COMPETE — VALIDITY OF EXTENSIVE TERRITORIAL RESTRICTION — DIVISIBILITY. — The plaintiff is a Pennsylvania corporation and imports, manufactures and sells powders and colors for decorating china, glass and ceramic wares. The defendants, former salesmen of the plaintiff upon entering employment covenanted that they would not divulge during the term of employment, or afterwards, "any trade secrets, formulas, receipts or processes," learned in connection with the business, and would not for a period of three years after employment terminated, engage directly or indirectly in business similar to that of the plaintiff, within Canada or that portion of the United States east of the Mississippi River. Upon termination of their employment, the defendants set up a business similar to that of the plaintiff and began using information gained in their former work. This was a suit to restrain breach of the covenant. *Held*, the covenant should be enforced as to the two Canadian provinces and the states east of the Mississippi River, in which the plaintiff actually is engaging in business, which obviates the necessity of considering whether the covenant is too broad. *O. Hommel Co. v. Fink.*[1]

Equity will enforce contracts not to compete which are not illegal restraints of trade.[2] If a restraint is not unreasonable, that is, the restraint is such only as to afford a fair protection to the party in favor of whom it is given without imposing undue hardship on the employee, and not so large as to interfere with the interests of the public, it is not illegal.[3] As against a former employee, however, if to grant the injunction would seriously impair the opportunity to earn his livelihood, equity will not act even though the contract is good at law unless irreparable injury would be done covenantee.[4] In the principal case the defendants

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[1] 177 S. E. 619 (W. Va. 1934).

[2] Lightner v. Menzel, 35 Cal. 452 (1868); Diamond Match Co. v. Roeber, 106 N. Y. 473, 13 N. E. 419 (1887); Hanforth v. Jackson, 150 Mass. 149, 22 N. E. 634 (1889); Carter v. Alling, 43 Fed. 208 (C. C. N. D. Ill. 1890); Fuller v. Hope, 163 Pa. 62, 29 Atl. 779 (1894); See 13 C. J. 467 (1917), for long list of cases.

[3] Nordenfelt v. Maxim Nordenfelt Gun & Ammunition Co., [1893] 1 Ch. 630; aff'd [1894] A. C. 535; See also THORNTON, TREATISE ON THE SHERMAN ANTI-TRUST ACT (1913) 46-92.

[4] Albright v. Teas, 37 N. J. Eq. 171 (1883); Gibbs v. Consolidated Gas Co., 130 U. S. 396, 9 S. Ct. 553 (1889) (Covenant declared invalid because of the injury to the public by being deprived of the restricted party's industry, and the injury to the party himself by being precluded from following his occupation, thus tending to make him a public charge.); Ward Baking Co. v. Tolley, 222 App. Div. 635, 653, 225 N. Y. Supp. 75 (1927); Chandler, *etc.*, Inc. v. Reynolds, 250 Mass. 309, 145 N. E. 476 (1924); McCall v. Wright, 198

would not have been so affected by an injunction since neither one had ever been in the manufacturing end of the business.

The present tendency, especially in England, is to limit equitable relief to cases involving the "steal" of trade secrets, customers lists, and the like.[5] The effect of a mere breach of covenant alone would be difficult to measure in damages but the isolated factor of speculative damages is hardly enough to stir equity to action in this type of case.[6]

The principal case is interesting largely as to the territorial extent of protection which will be granted. The extent of the territory must be no greater than is actually necessary for the protection of the business and good will of the employer and must not be unreasonable, in view of the interest of the public in securing the benefit of the employee's skill, labor, and knowledge.[7] Even though the covenant does not offend in these respects, the courts may refuse to restrain its breach, if under the circumstances it is harsh and oppressive upon the employee.[8] An analogy may be drawn between the territorial protection given in the principal case and the protection given to trade marks in the United States. In the case of *Allen and Wheeler Co. v. Hanover*

N. Y. 143, 91 N. E. 516 (1910); Hayes v. Doman, [1899] 2 Ch. 13. Where no irreparable damage is threatened, the remedy at law for the breach of covenant has been deemed adequate: Menter v. Brock, 147 Minn. 407, 180 N. W. 553 (1920); Simms v. Burdette, 55 Fla. 702, 46 So. 90 (1908); Osius v. Hincheman, 150 Mich. 603, 114 N. W. 402 (1908). *Contra*: Roper v. Pryor, 102 Neb. 709, 169 N. W. 257 (1918).

[5] Bowler v. Lovegrove, [1921] 1 Ch. 642; Atwood v. Lamont, [1920] 3 K. B. 571; Clark Co. v. Stenacher, 236 N. Y. 312, 140 N. E. 708 (1923); Kaumagraph Co. v. Stampagraph Co., 235 N. Y. 1, 138 N. E. 485 (1923); FARWELL, *Covenants in Restraint of Trade as Between Employer and Employee* (1928) 44 L. Q. REV. 66. See Note (1927) 41 HARV. L. REV. 782, suggesting that equity would enjoin this type of conduct in the absence of a covenant.

[6] Menter v. Brock; Simms v. Burdette; Osius v. Hincheman, all *supra* n. 4.

[7] Valid covenants: Nordenfelt v. Maxim Nordenfelt Gun & Ammunition Co., *supra* n. 3 (unrestricted as to territory); Owl Laundry Co. v. Banks, 83 N. J. Eq. 230, 89 Atl. 1055 (1914) (Driver of laundry wagon not to compete for two years in a certain county); American Ice Co. v. Lynch, 74 N. J. Eq. 298, 70 Atl. 138 (1908) (territory covered in ice delivery route and within five squares thereof for one year); Harrison v. Glucose Sugar Ref. Co., 116 Fed. 304 (C. C. A. 7th, 1902) (for three year within a 1500 mile radius of Chicago); Oppenheimer v. Hirsch, 5 App. Div. 232, 38 N. Y. Supp. 311 (1896) (The covenant was not to compete within sixteen states and Canada. Covenant held invalid for other reasons). Invalid Covenants: Bingham v. Maigne, 20 Jones & S. 90 (N. Y. 1885) (within 25 miles of city); Herreshoff v. Boutineau, 17 R. I. 3, 19 Atl. 712 (1890) (Not to teach within the state); Midland Press v. Compton & Co., 204 Ill. App. 216 (1917) (no limitation as to territory); see Note (1920) A. L. R. 1456 for collection of cases.

[8] Towel Co. v. Reynolds, 108 W. Va. 615, 152 S. E. 200 (1930) (Employee discharged after a few months service.)

Star Milling Co.,[9] the court held that the trade mark would be protected only in the market where it was actually used and a more recent decision[10] applied the same theory to a mark registered under the federal statute.

The court in the principal case thought it proper to enforce the covenant as to the territory where plaintiff actually did business without considering whether the full territorial restriction was excessive. The authorities permit that procedure, however, only where the covenant is by its very terms divisible, which was not the case here so far as the facts appear in the opinion.[11] To enforce an illegal indivisible covenant within the outer bounds of reasonableness not only makes the contract of the parties over but also leaves the covenantee free to impose as extensive restrictions as he pleases since he could expect a court to grant him all the protection the law allows in any event.[12]

—RUDOLPH E. HAGBERG.

INSURANCE — STATUTES — ADMISSIBILITY OF EVIDENCE OF CONVICTION OF NON-FELONIOUS KILLING OF INSURED BY BENEFICIARY. — A wife, sole distributee, and beneficiary of a life insurance policy killed her husband, the insured, and was convicted of involuntary manslaughter. Insurer sued as stakeholder to dispose of the proceeds of the policy. Since the wife's conviction was for less than a felony, she sought to introduce the criminal judgment in the civil suit to establish her claim to the proceeds on the theory

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[9] 240 U. S. 403, 36 S. Ct. 357 (1916) (Common law result). Mr. Justice Holmes, in a separate concurring opinion, said that the protection should be state wide in every state where the trade mark was used unless the common law of the state were found to require a different result.

[10] U. S. Printing Co. v. Griggs Cooper & Co., 278 U. S. 592, 49 S. Ct. 267 (1928); discussed in Note (1929) 24 ILL. L. REV. 474, in which it is suggested that where the mark is so registered, it should be protected over the entire United States. A trade mark registered in West Virginia is given state wide protection. W. VA. REV. CODE (1931) c. 47, art. 1, § 2 *et seq.*

[11] This distinction is recognized in the cases relied upon by the court in West Virginia Transportation Co. v. Ohio River Pipe Line Co., 22 W. Va. 600, 622 (1883), in rendering the dictum relied upon in the present case. So it was in the leading case of Price v. Green, 16 M. & W. 346, 153 Eng. Repr. 1222 (1847), and Oregon Steam Navigation Co. v. Winsor, 20 Wall. 64, 22 L. Ed. 315 (1874).

[12] See Mason v. Provident Clothing and Supply Co., Ltd., (1913) A. C. 724, 745. If divisible, but part of the covenant is unenforceable for uncertainty, relief should be given as to the valid portion. See Standard Fashion Co. v. Magrane Houston Co., 251, Fed. 559 (C. C. A. 1st, 1918). But see Feenaughty v. Beall, 91 Ore. 654, 178 Pac. 600 (1919).