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APPELLATE COURT 2nd DISTRICT

No. 16-0301

IN THE APPELLATE COURT OF ILLINOIS
SECOND DISTRICT APPELLATE COURT

AUTOMATED INDUSTRIAL MACHINERY, INC.,	) From the Circuit Court of
	) DuPage County, Illinois,
	) Chancery Division
Plaintiff-Appellant,	)
	) Circuit No. 13 CH 001758
v.	)
	) Honorable Bonnie M. Wheaton
TOM J. CHRISTOFILIS and IP AUTOMATION, INC.,	) Presiding
	)
	)
Defendants-Appellees.	)

BRIEF *AMICI CURIAE* OF THE NATIONAL ASSOCIATION OF MANUFACTURERS, NATIONAL ALLIANCE FOR JOBS AND INNOVATION, THE ALLIANCE FOR INDUSTRY AND MANUFACTURING, THE ILLINOIS MANUFACTURERS' ASSOCIATION, NATIONAL SMALL BUSINESS UNITED, AND TECHNOLOGY & MANUFACTURING ASSOCIATION IN SUPPORT OF PLAINTIFF-APPELLANT AUTOMATED INDUSTRIAL MACHINERY, INC.

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STATEMENT OF INTEREST OF *AMICI CURIAE*

The National Association of Manufacturers ("NAM") is the largest association of manufacturers in the United States. It represents small and large manufacturers in every industrial sector in all 50 states. The manufacturing industry employs more than 12 million men and women, contributes $2.17 trillion to the national economy annually, has the largest economic impact of any major sector, and accounts for more than three-quarters of private-sector research and development in the nation. The NAM is the powerful voice of the manufacturing community and the leading advocate for a policy agenda that helps manufacturers compete in the global economy and create jobs across the United States.

The National Alliance for Jobs and Innovation ("NAJI") is a non-profit organization seeking to end unfair competition by eliminating the theft of data, trade secrets, and other Intellectual Property ("IP") through access to enforcement resources, promoting public policies that protect against unauthorized access or appropriation of IP, and public education and cutting-edge research on the impact of IP theft and the need to protect the IP of U.S. businesses. NAJI represents over 400 manufacturing and high-tech enterprises around the United States that consider IP essential to their success. Over 80 percent of NAJI's members are small and medium-size companies.

The Alliance for Industry and Manufacturing ("The Alliance"), an employer-led organization serving Northeast Illinois, works directly with 300-400 companies annually to develop and implement business solutions to issues and challenges they face. The Alliance has been helping small businesses for over 40 years, and is committed to helping Illinois businesses leverage their collective resources to become globally competitive.

The Alliance's key focus over the last several years has been workforce development – assisting companies with training and hiring to foster global competitiveness.

The Illinois Manufacturers' Association ("IMA") is the oldest and one of the largest state manufacturing trade associations in the United States. Founded in 1893, IMA represents nearly 4,000 Illinois companies and facilities in advocating for, promoting, and strengthening the manufacturing sector. Manufacturers are innovators and entrepreneurs. IMA has found that non-compete agreements are crucial to protect manufacturers' research, products, intelligence, and confidential information.

National Small Business United, d/b/a the National Small Business Association ("NSBA"), represents 65,000 small businesses and entrepreneurs in every state, including Illinois. In its 80th year of existence, the NSBA is the nation's first small business advocacy organization. It is committed to promoting the interests of America's small businesses and entrepreneurs. The NSBA has long recognized that small businesses and entrepreneurs are the drivers of innovation in this country. The NSBA is dedicated to protecting and fostering small business's continued investment in technological innovation.

The Technology & Manufacturing Association ("TMA") was founded in 1925 by eight small manufacturing companies who thought they could better themselves by associating with one another. Through the years, members established programs and services that would help their businesses grow and prosper, train their employees, and provide medical and retirement benefits. As a result of these efforts, TMA has grown into a 1,000 member not-for-profit organization of precision manufacturing and supplier companies in the greater Chicago area.

This case is of significant interest to *amici curiae* because many of their members do business in Illinois and employ restrictive covenants to protect their valid business interests. Restrictive covenants allow manufacturers and other businesses to train employees and invest in their growth while also competing in a fair marketplace. The decision by the circuit court below is harmful to *amici curiae*'s members because it undermines those interests and prevents employers from knowing whether their restrictive covenants are enforceable or illusory.

Amici believe that this Court would benefit from additional briefing because the Illinois Supreme Court has not yet determined what consideration is adequate to support a restrictive covenant. While a growing number of courts have predicted that the Supreme Court would not adopt the bright-line two year employment rule relied on by the circuit court, Illinois appellate courts have not been clear on the issue. *See McInnis v. OAG Motorcycle Ventures, Inc.*, 2015 IL App (1st) 142644, ¶ 59 (Ellis, J., dissenting). *Amici* suggest that this Court should follow analogous Supreme Court precedent by looking at the facts and circumstances of the employment to determine whether adequate consideration exists to support a restrictive covenant.

ARGUMENT

It is difficult to overstate the manufacturing industry's impact on the economy and innovation. The manufacturing sector supports more people than any other private sector industry.[1] Moreover, manufacturers invest a great deal of resources in their people. A majority of manufacturers invest at least $1,000 on training per new hire per year, with

[1] http://www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/~/media/A9EEE900EAF04B2892177207D9FF23C9.ashx, at 18-19 (last visited Jan. 9, 2017).

20% of manufacturers spending over $5,000 per new hire.[2] Four of ten manufacturers spend at least $1,000 on ongoing employee training programs.[3] These expenditures are an investment in employees' skills, and also in the business itself. Any business is only as good as its employees.

At the same time, the viability of a manufacturer's business depends on the protection of its competitive information—information such as customer and supplier relationships, pricing strategy, and research and development designs. This is information that manufacturers entrust to their employees every day. A report by the Commission on the Theft of Intellectual Property estimates that IP theft costs the U.S. more than $300 billion.[4]

Employers use postemployment restrictive covenants to protect their confidential research, technical, and customer information from being disclosed to competitors by employees after they leave. Non-compete agreements provide an important mechanism for employers to protect their long-standing customer relationships from unfair competition due to recently departed employees soliciting the business. Restrictive covenants also provide an extra layer of protection from the disclosure of confidential and trade secret information to rivals by former employees. Although certain remedies for the misappropriation of trade secrets are provided by statute, proving liability and damages is often difficult in such cases. Enforceable non-compete and confidentiality

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[2] http://www.themanufacturinginstitute.org/Research/Skills-and-Training-Study/~/media/70965D0C4A944329894C96E0316DF336.ashx, at 10 (last visited Jan. 9, 2017).

[3] *Id.*

[4] http://www.ipcommission.org/report/ip_commission_report_052213.pdf, at 2, 11 (last visited Jan. 11, 2017).

agreements help to further safeguard businesses' investments in their employees and products.

Postemployment restrictive covenants must be supported by adequate consideration. In Illinois, this requirement may be satisfied with the promise of continued employment so long as the promise is not illusory. In general, courts have determined that the promise of continued employment is not illusory if the employment lasts for a "substantial period of time." However, a fact-specific, totality of the circumstances inquiry into the circumstances surrounding the employee's employment, the promise of continued employment, and the employer's interests sought to be probated would more effectively ensure that the interests of both employees and employers are protected. Such an inquiry would call for an assessment of important factors surrounding the employment, including the circumstances surrounding the execution of the covenant, the terms of employment, and facts surrounding the employee's departure.

However, recent court decisions in Illinois have suggested that a bright-line rule exists demarcating two years of continued employment as the minimum time required to enforce a restrictive covenant. This means that a restrictive covenant would not be enforceable if employment is terminated at any point within two years. Courts applying the two year bright-line rule have not explained why two years of employment is necessary to constitute a "substantial period of time." Moreover, enforcing a bright-line rule precludes an analysis of the factors surrounding the employment conditions and the employee's departure and whether failure to enforce the agreement would impose undue harm or unjust result on the employer while conveying an unfair benefit to the employee.

Amici respectfully request that this Court reject applying an arbitrary bright-line rule in favor of a fact-specific, totality of the circumstances analysis to determine whether an employee's continued employment is adequate consideration.

I. THE ILLINOIS SUPREME COURT REQUIRES COURTS TO ASSESS RESTRICTIVE COVENANTS UNDER A TOTALITY OF THE CIRCUMSTANCES TEST.

The Illinois Supreme Court has held that courts should assess a restrictive covenant's reasonableness based on the "totality of the circumstances" because this "will lead to results more grounded in the true considerations of a given case." *Reliable Fire Equipment, Inc. v. Arredondo*, 2011 IL 111871 ¶ 39 (internal quotation marks and citation omitted). Necessarily, each employment relationship presents its own unique factors that determine whether a restraint is reasonable. "The same identical contract and restraint may be reasonable and valid under one set of circumstances, and unreasonable and invalid under another set of circumstances." *Id.* ¶ 42 (internal quotation marks and citation omitted). In *Reliable Fire*, the issue before the Supreme Court was whether a postemployment restrictive covenant's terms were reasonable in scope. *Id.* ¶¶ 39-43. The court held that "[e]ach case must be determined on its own particular facts. . . . Reasonableness is gauged not just by some but by *all* of the circumstances." *Id.* ¶ 42 (emphasis in original). In so holding, the court expressly disfavored the use of "inflexible rules beyond the general and established . . . rule of reason." *Id.*

As with any contract, a postemployment contract must be supported by consideration. But unlike most contracts, which require the mere existence of consideration, an enforceable postemployment restrictive covenant must be supported by "adequate consideration." *Woodfield Group, Inc. v. DeLisle*, 295 Ill. App. 3d 935, 938 (1st Dist. 1998). Continued employment is deemed to be adequate consideration if it lasts

"for a substantial period of time beyond the threat of discharge." *Corroon & Black of Illinois, Inc. v. Magner*, 145 Ill. App. 3d 151, 163 (1st Dist. 1986).

The Illinois Supreme Court has not established how a "substantial period of time beyond the threat of discharge" should be calculated. However, seven judges sitting in United States District Courts in Illinois have predicted that the *Reliable Fire* holding requires that that determination be made based on a fact-specific, totality of the circumstances approach. *See Airgas USA, LLC v. Adams*, Case No. 15 C 50316, 2016 WL 3536788 at *3 (N.D. Ill. June 27, 2016); *Allied Waste Services of North America, LLC v. Tibble*, 177 F. Supp. 3d 1103, 1107-09 (N.D. Ill. 2016); *R.J. O'Brien & Associates, LLC v. Williamson*, Case No. 14 C 2715, 2016 WL 930628 at *3 (N.D. Ill. Mar. 10, 2016); *Traffic Tech, Inc. v. Kreiter*, Case No. 14-cv-7528, 2015 WL 9259544 at *5 (N.D. Ill. Dec. 18, 2015); *Cumulus Radio Corp. v. Olson*, 80 F. Supp. 3d 900, 906-09 (C.D. Ill. 2015); *Bankers Life and Casualty Company v. Miller*, No. 14 CV 3165, 2015 WL 515965 at *3-4 (N.D. Ill. Feb. 6, 2015); *Montel Aetnastak, Inc. v. Miessen*, 998 F. Supp. 2d 694, 715-18 (N.D. Ill. 2014).[5]

For example, in *Bankers Life*, Judge Shah reasoned that the Illinois Supreme Court would apply a totality of the circumstances test to determine if there was adequate consideration for the restrictive employment covenants at issue based on the *Reliable Fire* court's rejection of a "rigid approach to determining whether a restrictive covenant's scope was 'reasonable'" in favor of a totality of the circumstances test. 2015 WL 515965, at *4. Similarly, in *Airgas*, Judge Reinhard found that the *Reliable Fire* "'totality of the

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[5] Just one federal court predicted, shortly after the *Fifeld* decision, that the Illinois Supreme Court would apply the *Fifield* two year bright-line rule. *Instant Technology, LLC v. DeFazio*, 40 F. Supp. 3d 989 (2014).

facts and circumstances test' conflicts with the 'bright-line' rule utilized by" *Fifield* and its progeny, and rejected the two year bright-line rule in favor of a totality of the circumstances test. 2016 WL 3536788, at *3.

Federal district courts have overwhelmingly eschewed applying a bright-line rule to postemployment restrictive covenants, believing the Illinois Supreme Court would favor the fact-specific, totality of the circumstances approach used in *Reliable Fire* to determine if a restrictive covenant is enforceable.

II. THE ONE-SIZE-FITS-ALL RULE OF *FIFIELD* IS ARBITRARILY OVERBROAD AND NOT SUPPORTED BY LAW.

The circuit court relied on *Fifield* to find the restrictive covenants were not supported by adequate consideration because the employee had resigned less than two years after he agreed to the restrictive covenants. In *Fifield*, the First District observed that "Illinois courts have repeatedly held that there must be at least two years or more of continued employment to constitute adequate consideration in support of a restrictive covenant." *Fifield*, 2013 IL App (1st) 120327, ¶ 19 (citations omitted).

Fifield's conclusion is flawed and the two year employment rule required by *Fifield* should be abandoned for at least two reasons. First, a two year time period is arbitrary. Second, the *Fifield* court interpreted supporting case law too broadly in concluding two years of continued employment is necessary to find that a postemployment restrictive covenant is supported by adequate consideration. Unlike the circuit court below, this Court is not bound by the decisions of sister Illinois appellate courts and should not follow in the footsteps of *Fifield*. *See Kovac v. Brown*, 2014 IL App (2d) 121100, ¶ 85.

A. **The Two Year Bright-Line Rule Is Arbitrary, And Should Be Abandoned In Favor Of A Fact-Specific, Totality Of The Circumstances Inquiry.**

The bright-line rule in *Fifield* is problematic because it arbitrarily states that only one aspect of the employment relationship – the duration of employment – matters in determining whether an employee has been employed for a "substantial period of time." *See Fifield*, 2013 IL App (1st) 120327 at ¶ 19 (a two year bright-line rule "is maintained even if the employee resigns on his own instead of being terminated"). Although courts have found that two years of continued employment is generally *sufficient* to constitute a substantial period of time of employment, no Illinois court has explained why two years of continued employment is *necessary*. As Justice Ellis explained, "I have seen no case that has explained why two years should or must be a mandatory minimum amount of time." *McInnis*, 2015 IL App (1st) 142644, ¶ 69 (dissenting). "I find nothing about the time period of 2 years, versus 20 months or 30 months or any other time period, that demands that we carve it into law as a bright-line, dispositive time period." *Id.* ¶ 59.

The *Fifield* approach is diametrically opposed to case law indicating that the calculation of a "substantial period of time" should not strictly rely on the passage of time. In *Montel*, the court refused to apply the *Fifield* bright-line rule because "Illinois courts have unequivocally stated their refusal to limit[ ] the courts' review to a numerical formula for determining what constitutes substantial continued employment." 998 F. Supp. 2d at 716 (quotation and citation omitted); *see also Woodfield Group*, 295 Ill. App. 3d at 943 (same). The *Montel* court explained that Illinois courts have traditionally looked at a number of factors to determine if there is sufficient consideration for a restrictive covenant, including "the raises and bonuses received by the defendants, their

voluntary resignation, and the increased responsibilities they received after signing a restrictive covenant." *Id.*

Indeed, courts have criticized *Fifield*'s bright-line rule because it precludes an analysis of any facts surrounding the employment relationship besides the duration of employment. In *Cumulus Radio*, the court observed that "[o]ne of the primary problems from which [the bright-line approach] suffers is its failure to give weight to the reason that an employee's at-will employment ended." 80 F. Supp. 3d at 907. This is because the "substantial period of time" requirement is designed to protect employees "against the whims of their employers." *Id.*; *see also McInnis*, 2015 IL App (1st) 142644 ¶ 83 ("If the employee left of his or her own accord after a lengthy stay on the job, there is no basis to believe that the employer's promise of employment was 'illusory.'") (Ellis, J. dissenting).

The courts' prior silence on the rationale supporting a two year bright-line rule speaks volumes as to the wisdom behind the rule. By trying to apply a one-size-fits-all approach, *Fifield* and other courts have wrongly glossed over the perverse consequences that can occur when the two year rule is applied in cookie-cutter fashion without regard to the individual facts and circumstances of each case.

For example, applying the two year rule, *Fifield* and its progeny have held that the circumstances of an employee's termination are irrelevant to the analysis, and that the two year bright-line rule applies even if the employee voluntarily resigns of her own accord, through no fault of the employer. *Fifield*, 2013 IL App (1st) 120327, ¶ 19 (citing *Diederich*, 2011 IL App (5th) 100048, ¶ 15; *Brown and Brown*, 379 Ill. App. 3d at 729). This would permit an employee to sign a postemployment restrictive covenant on Monday, quit on Tuesday, and compete against his employer on Wednesday. *See id.*

(holding non-compete covenant lacked adequate consideration despite employee quitting after three months to join rival firm). This rule would also prevent an employer from enforcing a covenant against an employee who quit just short of two years. *See McInnis*, 2015 IL App (1st) 142644, at ¶¶ 28-44 (holding non-compete covenant unenforceable against employee who was employed for 18 months). The two year bright-line rule cuts off any factual analysis of an employer-employee relationship, and could render an employer utterly defenseless for a period of two years from a competing former employee, regardless of the intent and actions of the parties to the covenant.

B. The *Fifield* Court Misapplied The Case Law To Find That Two Years Of Continued Employment Is Necessary For Adequate Consideration.

In concluding that Illinois courts have "repeatedly held that there must be at least two years or more of continued employment to constitute adequate consideration," *Fifield* relied on three cases: (1) *Lawrence & Allen, Inc. v. Cambridge Human Resource Group, Inc.*, 292 Ill. App. 3d 131 (2d Dist. 1997); (2) *Brown and Brown, Inc. v. Mudron*, 379 Ill. App. 3d 724 (3d Dist. 2008); and (3) *Diederich Insurance Agency, LLC v. Smith*, 2011 IL App (5th) 100048. 2013 IL App (1st) 120327 ¶ 19. However, those cases did not require two years of continued employment for a postemployment restrictive covenant to be supported by adequate consideration.

In *Lawrence*, this Court held that the defendant-employee's two and a half years of continued employment was adequate consideration to support a postemployment restrictive covenant. 292 Ill. App. 3d at 138. In support, *Lawrence* cited to *Agrimerica, Inc. v. Mathes*, 199 Ill. App. 3d 435, 442 (1st Dist. 1990), which held that an employee's employment of over two years constituted adequate consideration. *Lawrence* did not find

that two years was *necessary* for there to be adequate consideration, but simply that it was *sufficient* under the circumstances of that case.

In *Brown*, the Court rejected seven months of employment as adequate consideration, citing *Lawrence* and *Mid-Town Petroleum, Inc. v. Gowen*, 243 Ill. App. 3d 63 (1st Dist. 1993). 379 Ill. App. 3d at 728-29. *Brown* noted that "Illinois courts have generally held that two years or more of continued employment constitutes adequate consideration." *Id.* at 729. But *Mid-Town* does not support applying a bright-line durational rule to whether an employee has been employed for a "substantial period of time." Rather, *Mid-Town* found that whether adequate consideration exists to support a restrictive covenant is a "question of fact," and that the defendant-employee's seven-month employment was not adequate consideration where his employment responsibilities were altered after signing the postemployment restrictive covenant. 243 Ill. App. 3d at 69-71; *see also McInnis*, 2015 IL App (1st) 142644 ¶ 82 ("[T]he consideration [in *Mid-Town*] did not fail because the employee quit; the employee quit because the consideration failed.") (Ellis, J., dissenting).

Finally, in *Diederich*, the Court rejected three months of employment as adequate consideration, citing *Lawrence*, *Brown*, and *Mid-Town*. 2011 IL App (5th) 100048, ¶ 15. The Court noted that in *Brown* and *Mid-Town*, seven months was found not long enough to constitute sufficient consideration and that the circuit court did not err in finding that three months of continued employment was not sufficient. *Id*.

The fact that courts have "generally" held that two years or more of continued employment constitutes adequate consideration does not suggest that anything less than two years is automatically inadequate. As Justice Ellis explained in his dissent to

McInnis, "saying that courts have generally found two years of postcovenant employment to be sufficient is very different than saying that anything *less* than two years is *automatically insufficient*." *Id*. ¶¶ 61 (emphasis in original); *see also id*. ¶ 63 (noting that *Lawrence* "never suggested that two years was a mandatory minimum"). Citing *Lawrence* for the proposition that "a mandatory two-year employment period is required" is simply misstating the holding in *Lawrence*. *Id*. ¶ 64; *see also Bankers Life*, 2015 WL 515965 at *3 (finding that *Fifield* and its supporting cases in fact "suggest that two years of continued employment are *sufficient* to support a restrictive covenant; but they do not hold that two years are *necessary*.") (emphasis in original).

C. Case Law From Around The Country Identifies The Factors That Illinois Courts Should Consider In Determining Whether Consideration Is Illusory.

A totality-of-the-circumstances, fact-specific analysis is necessary to determine whether the consideration provided in exchange for a restrictive covenant is illusory. Where the consideration is continued employment, a court should first consider whether the employee resigned voluntarily or was terminated involuntarily. When an employee resigns voluntarily—particularly when the resignation did not involve any material, detrimental changes to the terms of employment—there should be a presumption that the promise of continued employment was not illusory consideration.

But where the employee is terminated, the court should consider and weigh the following additional factors: (1) the period of employee's employment, including both the length of employment prior to the execution of the agreement, and the length of employment after the execution of the agreement (the longer the period of the employee's employment prior to execution the more likely the employee is valued by employer and the promise of continued employment was not illusory); (2) facts and circumstances

surrounding employee's employment, such as the position of the employee in the company, the unique skills, knowledge, experience and training of the employee, whether the employee had an ownership interest in the employer, the employee's access to the employer's trade secrets and other confidential, proprietary information, including employee's relationship with customers, the bargaining power of the employee, and whether the employer had just cause for the termination (the more the factors demonstrate the employee was important and valuable to the employer, the more likely the promise of continued employment was not illusory); and (3) whether failure to enforce the restrictive covenant agreement would impose undue harm or an unjust result on employer or convey a windfall or unfair advantage to employee.

The factors listed above are informed by case law from around the country that acknowledges that continued employment is just one of many factors to consider in determining whether consideration was adequate. *See infra*.

The duration of continued employment. Illinois courts should begin by analyzing the length of employment following execution of a restrictive covenant agreement. If the employee was employed for a "substantial" period of time after the non-compete is executed, the non-compete should be upheld because the consideration was not illusory. *See e.g., Zellner v. Stephen D. Conrad, M.D., P.C.*, 183 A.D.2d 250, 256 (N.Y. App. Div. 2d 1992) ("However, where … a relationship continues for a substantial period after the covenant is given, the forbearance is real, not illusory, and the consideration given for the promise is validated."); *Stanacard, LLC v. Rubard, LLC*, Case No. 12 Civ. 5176, 2016 U.S. Dist. LEXIS 15721, *63 (S.D.N.Y. Feb. 3, 2016) ("[U]nder New York law, continued employment is deemed consideration for purposes of entering

into post-employment restrictive covenants, as long as employment continued for a 'substantial period' following the execution of the agreement."); *Simko, Inc. v. Graymar Co.*, 464 A.2d 1104, 1107-1108 (Md. Ct. Spec. App. 1983) ("[T]he continuation of employment for a substantial period beyond the threat of discharge is sufficient consideration for a restrictive covenant."). Other courts look for employment to endure beyond a "short" period of time. *Summits 7, Inc. v. Kelly*, 886 A.2d 365, 373 (Vt. 2005) ("Regardless of what point during the employment relationship the parties agree to a covenant not to complete, legitimate consideration for the covenant exists as long as the employer does not act in bad faith by terminating the employee shortly after the employee signs the covenant."); *Frierson v. Sheppard Bldg. Supply Co.,* 154 So.2d 151, 154 (Miss. 1963) ("If appellant had been discharged shortly after signing the agreement, this Court would probably hold the agreement was not supported by consideration."); *Raines v. Bottrell Ins. Agency, Inc.*, 992 So. 2d 642, 646 (Miss. Ct. App. 2008). Regardless, the principle is the same: an employee's length of employment after the non-compete agreement is signed is an important factor for a court to consider.

Whether the employee voluntarily terminated his or her employment. In considering the totality of the circumstances, courts in Arizona and Tennessee consider whether the employee voluntarily terminated his or her employment. *See Mattison v. Johnston*, 730 P.2d 286, 290 (Ariz. Ct. App. 1986) (finding no evidence the employer "did not intend to continue the employment relationship" where the employee elected to terminate employment shortly after signing non-compete agreement); *Coup v. Scottsdale Plaza Resort, LLC*, 823 F. Supp. 2d 931, 943 (D. Ariz. 2011) (citing *Mattison* in the context of continued employment as consideration for an arbitration agreement, the court

found that "nothing in the record indicates that [the employer] did not intend to continue the employment relationship"); *Vaughn v. Weems*, No. 01A01-9407-CV-00324, 1994 Tenn. App. LEXIS 712, *6 (Tenn. Ct. App. Dec. 7, 1994) (finding length of employment "combined with the fact that the employee chose to leave voluntarily, is sufficient consideration").

<u>The circumstances under which an employee leaves</u>. Other courts focus on the employer's conduct, and the circumstances under which an employee leaves, in determining whether continued employment is sufficient consideration. *See Cytimmune Scis., Inc. v. Paciotti*, Case No. PWG-16-1010, 2016 U.S. Dist. LEXIS 75669, *6 (D. Md. June 10, 2016) ("In the context of a restrictive covenant, continued employment of an at-will employee for a significant period constitutes sufficient consideration . . . where there is no allegation of bad faith or other compromising circumstance." (internal quotation marks omitted)). The Tennessee Supreme Court in *Central Adjustment Bureau, Inc. v. Ingram*, 678 S.W.2d 28, 35 (Tenn. 1984), explained that the discharge of an at-will employee "which is arbitrary, capricious or in bad faith clearly has a bearing on whether a court of equity should enforce a non-competition covenant." *See also Dill v. Cont'l Car Club, Inc.*, No. E2013-00170-COA-R3-CV, 2013 Tenn. App. LEXIS 711, *46-47 (Tenn. Ct. App. Oct. 31, 2013) ("It is also significant to this analysis that [the employees] voluntarily resigned from their employment, despite [the employer's] best efforts to retain them."). The New Jersey court in *Grinspec, Inc. v. Lance*, No. A-3313-01T1, 2003 N.J. Super. Unpub. LEXIS 17, *21-22 (N.J. Super. Ct. App. Div. Aug. 13, 2003), determined that four months of continued employment was inadequate consideration, but did so only after considering (i) that the employer terminated the employee; (ii) that the

employment was not terminated for cause; (iii) the employee's job performance after executing the restrictive covenant; and (iv) the duration of the employee's employment before executing the covenant.

Whether failure to enforce the restrictive covenant would impose unjust harm on the employer and conveys unfair advantage to the employee. Courts also consider the harm that could occur if a restrictive covenant is not enforced. As the court in *Flying Colors of Nashville, Inc. v. Keyt*, No. 01-A-01-9103-CH-00088, 1991 Tenn. App. LEXIS 634, *15-16 (Tenn. Ct. App. Aug. 14, 1991), explained: "[C]lose and repeated contact between the employee and customers causes the customers to associate the employer's business with the employee, thereby giving the employee a special advantage in luring customers away from the employer. Such a situation justifies the enforcement of a non compete covenant." *See also Hanger Prosthetics & Orthotics E., Inc. v. Kitchens*, 280 S.W.3d 192, 201 (Tenn. Ct. App. 2008).

III. A TWO YEAR BRIGHT-LINE RULE IS BAD PUBLIC POLICY.

A. A Two Year Bright-Line Rule Endangers Employers' Legitimate Business Interests.

Applying a bright-line rule instead of a fact-specific, totality of the circumstances approach to what constitutes adequate consideration when dealing with continued employment threatens to undermine the purpose of postemployment restrictive covenants by overprotecting employees to the detriment of their employers. Jurisprudence surrounding the enforceability of postemployment restrictive covenants is designed to accommodate the competing interests of both employers and employees.

For employers, postemployment restrictive covenants may be enforced to protect their legitimate business interests, which include but are not necessarily limited to, their

investment in longstanding customer relationships, and confidential or trade secret information. *Reliable Fire*, 2011 IL 111871 ¶ 43. Employers may also wish to utilize a restrictive covenant as an extra layer of protection from trade secret misappropriation because proving damages in trade secret misappropriation cases can be difficult. *See Thomas & Betts Corp. v. Panduit Corp.*, No. 93 C 4017, 1997 WL 603880, at *17 (N.D. Ill. Sept. 23, 1997) (Moran, J.). An employer must invest in its employees to sustain and grow its business. Employees may be trained and entrusted to handle confidential price information, establish and maintain customer relationships, and design better and more efficient products, all on behalf of the employer. This investment enables employees to do their jobs effectively, which allows the employer to serve its customers' needs and innovate better. *See Curtis 1000*, 24 F. 3d at 946. But this investment is at substantial risk if, for example, an employee were to exploit his employer's investment by competing against the employer with the employer's sensitive information. Thus, postemployment restrictive covenants, and more specifically the ability to enforce those covenants, are crucial to safeguard a company's investment in its assets and its people. *Id.*

Accordingly, the *Fifeld* rule, requiring two years of continued employment to render a postemployment covenant enforceable "is overprotective of employees, and risks making post-employment restrictive covenants illusory for employers subject completely to the whims of the employee as to the length of his employment." *Cumulus Radio*, 80 F. Supp. 3d at 906. For example, in *Cumulus Radio*, a departing employee voluntarily resigned twenty-one months after entering a post-employment non-competition agreement. *See id.* at 909. Under those circumstances, the court found that the employee had "resigned voluntarily just before the contract would have been

supported by adequate consideration under *Fifeld's* bright-line rule." *Id.* The court concluded that applying the *Fifeld* rule in those circumstances "would turn a judicially-crafted requirement for adequate consideration that is meant to shield employees into a sword that can potentially harm employers' legitimate business interests, which lack a comparable shield of protection." *Id.*

Requiring continued employment for a "substantial period of time" is a judicially crafted effort to strike the right balance between employers' and employees' interests. An employer that empowers its employees with business and technical know-how is afforded the necessary protection to ensure that its investment is not unfairly used against it. Meanwhile, employees are protected from the illusory promises of at-will employment where the employer has no intention of retaining the employee.

In light of employers' and employees' competing interests, it makes sense that assessing whether adequate consideration supports a postemployment restrictive covenant should be done in accordance with the principles the Supreme Court espoused in *Reliable Fire*, 2011 IL 111871, ¶ 39. These principles compel evaluating a postemployment restrictive covenant in view of all surrounding circumstances because this "will lead to results more grounded in the true considerations of a given case." *Id*. (internal quotation marks and citation omitted); *see also Cumulus Radio*, 80 F. Supp. 3d at 906 ("A case-by-case, fact-specific determination . . . can ensure that employees and employers alike are protected from the risks inherent in basing consideration on something as potentially fleeting as at-will employment.").

B. A Two Year Bright-Line Rule Makes Illinois Unattractive To Employers.

The many legal and precedential problems with *Fifield*'s bright-line rule are not merely academic concerns. They have real-world consequences for *amici* and their members. *Fifield*'s most direct and immediate impact is that it makes Illinois more expensive, and less attractive, for manufacturers to do business. This, of course, makes it more difficult for *amici*'s members to compete in their respective markets. Indeed, *Fifield*'s bright-line rule puts Illinois not just out-of-step with the states that surround it, but also the nation.

As an initial matter, Illinois is the only state in the union that imposes a bright-line rule that specifies the length of continued employment that is necessary for such employment to constitute adequate consideration for a restrictive covenant. In fact, the only non-Illinois court to even approach a bright-line rule took care to confirm that it was not, in fact, establishing a bright-line rule. The court in *Wausau Mosinee Paper Corp., v. Magda*, 366 F.Supp.2d 212, 220 (D.Me. 2005), explained that "the execution of a written non-compete agreement by a preexisting, at-will employee constitutes a unilateral promise that will give rise to an enforceable contract where the employer continues to employ the at-will employee for a period in excess of one year from the date of execution of the non-compete agreement." Lest there was any confusion, the Maine court clarified that it did "not mean to suggest that the Law Court would require a one-year period of employment as a threshold, only that the period of continued employment in this case is adequate." *Id.* at n.3. The careful explanation in *Wausau*, together with absence of any bright-line in any other state in the union, demonstrates how far out of the mainstream *Fifield*—and, by extension, Illinois—was and remains.

But *Fifield*'s greatest cost is seen when it is compared to the six states that border Illinois—that is Illinois' competitors: Indiana, Missouri, Michigan, Wisconsin, Iowa, and Kentucky. In five of these six states, continued employment is adequate consideration for a covenant not-to-compete. *See Ackerman v. Kimball Int'l,* 652 N.E.2d 507, 509 (Ind. 1995) ("[A]n employer's promise to continue at will employment is valid consideration for the employee's promise not to compete with the employer at his termination."); *QIS, Inc. v. Indus. Quality Control, Inc.*, 686 N.W. 788, 789 (Mich. Ct. App. 2004) ("Mere continuation of employment is sufficient consideration to support a noncompete agreement in an at-will setting."); *Jumbosack Corp. v. Buyck*, 407 S.W.3d 51, 57 (Mo. Ct. App. 2013) ("[C]ontinued employment and the attendant access to the employer's protectable information and relationships constitutes adequate consideration for a non-compete agreement executed after the inception of employment."); *Runzheimer Int'l, Ltd. v. Friedlen*, 862 N.W.2d 879, 892 (Wis. 2015) ("[A]n employer's forbearance in exercising its right to terminate an at-will employee constitutes lawful consideration for a restrictive covenant."); *Pro Edge, L.P. v. Gue,* 374 F. Supp. 2d 711, 741 (N.D. Iowa 2005) ("Under Iowa law, continuing employment for an indefinite period is sufficient consideration to support a covenant not to compete." (internal quotation marks omitted)). Even in Kentucky—the one outlier—continuing employment, alone, is likely sufficient if the non-compete was executed at the inception of employment. *Higdon Food Serv., Inc. v. Walker,* 641 S.W.2d 750, 752 (Ky. 1982).

Taken together, this body of case law confirms that *Fifield* has made Illinois less competitive in attracting and retaining employers than the states it borders. Indeed, in each of the states surrounding Illinois, an employer can hire an employee and expose that

employee to proprietary trade secrets immediately, confident that the restrictive covenant securing its trade secrets will be enforced. In Illinois, the employer must either live with the risk that its trade secrets are unprotected for two years or provide consideration in addition to the employee's compensation and benefits (which, in turn, requires the employer to pay above market compensation for a comparable employee). In Illinois, employers who need to grow and hire more employees must either stunt growth by restricting each new employee's exposure to customers, trade secrets, and other confidential information until the expiration of the two year anniversary of each new employee's restrictive covenant agreement, or pay additional consideration in the form of a signing bonus or some other extra compensation vehicle and take the risk that this "additional consideration" will be deemed "adequate consideration" by Illinois courts. Regardless, the outcome is the same: an employer has little incentive not to make the short move from Chicago to Gary, Indiana at its first opportunity.

CONCLUSION

The bright-line rule announced in *Fifield* and relied upon by the circuit court fails to account for the legitimate business interests that employers have in maintaining their competitive advantage. The rule further renders otherwise valid postemployment restrictive covenants unenforceable as a matter of law for a period of two years. The more reasoned approach is the one espoused by the Illinois Supreme Court, which accounts for all relevant factors surrounding the employment relationship to determine whether adequate consideration supports a covenant. In this case, *amici* respectfully submit that the circuit court should have considered the tailored nature of the restrictive covenant, the senior position of the employee, the long duration of continuous employment, and the fact that the employment relationship was terminated by the employee in determining

whether the restrictive covenant was supported by adequate consideration. For these reasons, *amici* respectfully request that this Court employ a fact-specific, totality of the circumstances test when determining whether a postemployment restrictive covenant is supported by adequate consideration.

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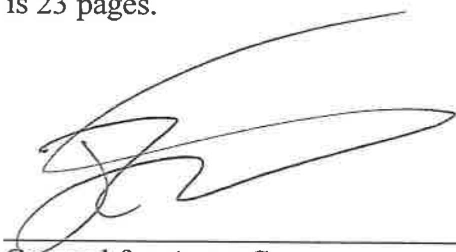
RULE 341 CERTIFICATE OF COMPLIANCE

I certify that this brief conforms to the requirements of Rules 341(a) and (b). The length of the brief, excluding the pages contained in the Rule 341(d) cover, the Rule 341(h)(1) statement of points and authorities, the Rule 341(c) certificate of compliance, the certificate of service, and those matters to be appended to the brief under Rule 342(a), is 23 pages.



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that three copies of the foregoing Brief *Amici Curiae* were served upon all parties listed on the attached Service List by depositing the same in the U.S. Mail first-class with postage prepaid prior to 5:00 p.m. on March 22, 2017.

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