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People Aspect of Entrepreneurs: Personal Service Contacts with Key Personnel including Non-Compete Clauses, Methods of Reimbursement for Company Success, Incentives (Profit-Sharing or other), and Effect of Immigration Restrictions on Entrance of Possible

Discussion

The more common scenario is Americans crossing the border to conduct business for a day or a week and then returning. Our system is relatively flexible on this front. There are visas that can be obtained, and many of you are probably aware of this process. Where this becomes complex, it is important to have immigration consultants to assist you. I recently had a client in the U.S., an American media company, who was sending two of their journalists across the border to Toronto. The complicating factor was that both of these employees were minors and their parents were not able to travel with them. We had to figure out how we can get two 16 year-olds across the border with only two days notice. Finding the answer quickly was quite difficult because we found the materials that the immigration authorities in Canada provided to be impenetrable. There was a form that required the parents to grant consent and transfer guardianship of these two teenagers to a representative of the company for a narrow period of time. If something happened and these two teenagers had to stay in Canada longer, another form was required. The process was very complicated. The bottom line is to consult with experts when necessary.

Thank you very much.

DISCUSSION FOLLOWING THE REMARKS OF BENJAMIN W. JEFFERS AND JOHN D. R. CRAIG

MR. TORMA: John, thank you very much. It was an excellent presentation.

The closing comment is to remind us that we need to use the legal counsel that is available. We may ask ourselves, gee, isn't that rather expensive? Well, I use the analogy that education is expensive. The only thing more expensive than education is ignorance. So I think we would be penny wise and a pound foolish not to take that advice.

Are there any questions, a few comments? Let's see first from the audience if there are any questions.

Henry?

DR. KING: Yeah. I wanted to get the comments on the duration of non-compete clauses both in Canada and the United States. What is a reasonable point in time for a non-compete clause?

MR. JEFFERS: I won't give you the "depends" answer, but I will say if you are in a fast-moving industry where there is a lot of change, a lot of innovation, maybe six months in some jurisdictions would be considered reasonable.[129] That may be all that you really need in terms of trying to keep

[129] *See, e.g.*, DoubleClick, Inc. v. Henderson, No. 116914/97, 1997 N.Y. Misc. LEXIS 577, at *23 (Sup. Ct. N.Y. Nov. 5, 1997) (enjoining defendants for six months because a one year restrictive covenant was too long given the dynamic nature of the internet industry).

a key former employee from competing against you; other industries, maybe a year.

I think as a rule of thumb in some of my – and some of my employment colleagues probably would agree with me – anything more than a year I think the court is really going to look at very closely, and you would have to have a very good reason.[130]

MR. TORMA: I would like to make a comment on it, if I may, absolutely non-legal, more from a practitioner's viewpoint. Nordson Corporation makes industrial application equipment.[131] As I indicated, we started with painting equipment, electrostatic for the most part, and now powder paint equipment.[132] That's about one third of our business.

Two thirds of our business is packaging, basically closing, sealing boxes, applying glue to products, et cetera, et cetera. So we are a relatively sophisticated but fairly not high-tech and not that fast moving technology. Over the more than 50 years that we have put in non-compete agreements, we have evolved, and it is different by country. But the U.S. and Canada are almost similar, and it is basically as we heard here, it is a matter of common sense, and it is a matter of reasonableness.

And the four factors that we keep in mind – and it has worked very well for us – as we heard about is, one, geographic scope. So if a person is a sales person, we normally restrict it only to the person's current geographic scope. And that has been seen as relatively reasonable by a court of law.[133]

The second one is the functional scope of how broad it can be. If a person is a sales person in a particular product line, we are very careful with that product line because in this day and age with the Internet, there is a lot of information that is already public domain. So we are only concerned about that which is not. So number one, it is a limited geographic scope.[134]

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[130] *See, e.g.,* Captain & Co., Inc. v. Towne, 404 N.E. 2d 1159 (Ind. Ct. App. 1980) (holding a two-year covenant not enforceable).

[131] Nordson Corporate Profile, http://www.nordson.com/Corporate (last visited Nov. 10, 2007).

[132] Nordson History, *supra* note 1.

[133] *Compare* New River Media Group, Inc. v. Knighton, 245 Va. 367 (Va. 1993) (upholding a non-competition agreement that prohibited employee from engaging in competing business within sixty air miles of former employer's radio station where the radius of the station's signal strength was sixty air miles) *with* Alston Studios, Inc. v. Lloyd V. Gress & Associates, 492 F.2d 279 (4th Cir. 1974) (holding that a non-competition covenant was overbroad both as to geography and the activities of future employment in that it encompassed activities in which defendant was not engaged).

[134] Ann C. Hodges & Porcher L. Taylor, III, *The Business Fallout from the Rapid Obsolescence and Planned Obsolescence of High-Tech Products: Downsizing of Noncompetition Agreements*, 6 COLUM. SCI. & TECH. L. REV. 3 (2005).

Number two, it is a limited functional scope.[135] So if it is translated back to our product, if it is a glue application or adhesive application sales person, we narrow it down to probably just packaging as that is their specialty.

The third one is the length of time, and ours is almost always two years in the U.S. and Canada, different in different countries. I quickly go to the fourth one because it backtracks with the third one. What compensation is there in order to make it reasonable?

It would not be reasonable – and I am not an attorney, but it just makes sense that it is not reasonable – if you just prevent a person from working. What we do is, say, for up to two years, if that person makes a good faith effort to find a job and is not able to do so outside of the non-compete regulations, we will pay them 75 percent of their compensation for up to a two-year period based on a track record they have been looking for another job.[136] And that package, except for Minnesota one time, which we fixed that, other than that, we are pretty much in good shape in both the U.S. and Canada.

MR. SHANKER: How do you deal with former employees stealing your customers?

MR. TORMA: Okay. I would like to defer that to the attorneys if they don't mind.

MR. CRAIG: I have two categories of clients: the client who wants me to draft non-compete provisions who never intends to enforce them, they simply want to have them as deterrence. They will say, "We never would enforce it so make it five years." This is one attitude. The other client feels that non-compete provisions are important and do not want to risk losing business.

Generally speaking, non-compete provisions are unenforceable unless they are reasonable.[137] A non-compete provision will not be reasonable if a non-solicitation clause would be sufficient to accomplish the employer's objectives.[138] As a result, you only have a narrow category of employees who truly can be subject to non-competition provisions. In this category are those who are the face of the company. If they were to leave the company, clients would follow. One of the key cases that we have on this point involved a partner in an actuarial firm.[139] I should point out, that the court said that the rules apply similarly in employment. The partner had been at the firm for a long time and was subject to a non-compete provision. When she left, all of

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[135] *Id.*

[136] *See generally id.* (stating that employers should consider providing severance pay to employees in order to reduce litigations arising from non-compete agreements).

[137] Lyons v. Multari, [2000] 50 O.R.3d 526, 531 (Can.).

[138] *Id.* at 534.

[139] Towers, Perrin, Forster & Crosby, Inc. et al. v. Cantin et al. (1999), 46 O.R. (3d) 180 (S.C.J.)

her clients followed her. The court held that she was the kind of person who could be restrained by a non-compete provision because clients will simply follow her no matter what. So, generally speaking, I would think that for a person of that nature, 24 months would be the upper limit.

The point that Jerry made is very important because if you want to have a non-compete that is longer than that, you are probably going to have to provide compensation during that period of time. You may well be able to get away with compensation paralleling the length of the non-compete provision because there is very strong consideration for the limitation.[140]

MR. JEFFERS: I forgot the question. How do you prevent employees from stealing customers?

MR. SHANKER: yeah. That was – goes back decades ago that was our concern. Sometimes they take your customers with them, and sometimes the customers want to go, and how do you deal with that problem?

MR. JEFFERS: Yeah. It is very difficult, and I will be honest, in many instances you just can't solve that. You can try to enter into a non-solicitation agreement with an employee where they are agreeing not to solicit your customers for a period of time. That's going to be analyzed much along the lines of a non-compete because it has the functional equivalent.

In terms of whether there is any sort of inherent protection to your customer list, it would depend upon whether your customer list was considered a bona fide trade secret.[141] And under the Uniform Trade Secret Act, which has been adopted in most of the states in the U.S., a trade secret is sort of information or a pattern, a compilation that derives independent economic value, actual or potential, from not being known or ascertainable by proper means by others who could gain value.[142]

Now, essentially what that means, if this is just a public list, forget it. If your customers – if we are in Detroit and you are an automotive supplier and your customers are OEMs, there is absolutely nothing to seek further proprietary about that customer list. If you are in an industry where given the nature of your products or processes you have actually developed specific contacts and sort of niche customers, then perhaps you might get some protection. That's sort of the legal answer.

From a nuts and bolts perspective – and this goes to just stealing any sort of company secrets – some of the advice we give if you are letting an employee go is to do a couple things. First, do an exit interview. Don't

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[140] *See generally* Hodges & Taylor, *supra* note 134 (explaining that a provision for severance pay would greatly reduce litigation).

[141] *See, e.g.*, Holiday Pacific Ltd. v. Valhalla Custom Homes Ltd., [1990] 29 C.P.R.3d 1 (Can.) (finding that a customer list was information that the defendants would have been aware just from their employment, and as knowledge of an employee is not a trade secret, the court held for the defendants).

[142] Unif. Trade Secrets Act § 1(4) (1985).

discount the value of sitting in an office face to face with someone and asking, "Have you taken – are you taking anything as you walk out the door?"

If the person is dishonest enough to have stolen something, they may continue to be dishonest, but you may learn something during the course of that interview that at least raises some red flags. We suggest that you reaffirm to that employee what their agreement is, provide them sort of a reminder letter or perhaps even get them to sign it – that they received this reminder letter.

As a practical matter, in this day and age, I think one of the first steps that a lot of employers are going to do is they will have the IT department access and assist them in trying to determine whether or not that employee has downloaded any information.

There is an electronic paper trail, as it were, if you are copying data, and there would be what they call a meta data trail, for example, on April 9th at 10:33 in the morning, user No. 3936 copied the following files from the database. And so those are things where immediately you can try and ascertain whether there is a pattern here and something that looks odd.

MR. TORMA: In addition to our non-competition clause, our employment agreement has two other key clauses. One of those deals is right of invention, and we won't deal with that, and the other one is confidentiality.

And we will consider customer data, certain aspects of that, confidential. Even the reference was to ongoing companies – we had a case where they were selling to the Big Three, then the fact it is the Big Three is not the issue. Who the contacts are, whether they are e-mail addresses, the telephone numbers, but more importantly, what have they bought from us, and what prices with what contractor and so on.

And we do address that, and we do exactly as Ben recommended, and we remind them when they are going out the door, we send them a copy of their employee agreement, reminding them they signed that, and it is still valid, certain aspects of it for certain periods of time.

If it is a service type situation, which most of the time it is not, it is voluntary resignation, then there is an agreement, and part of that agreement is acknowledgement of their employment agreement. It is not always working, but for the most part, if you remind them they did sign it and for a period of time there is a sensitivity there, usually in our business three to six to nine months is sufficient for the information to be old enough for us to get in there with the contacts and do a peremptory strike; remind them that we can do that.

So again it goes to reasonableness and preparation in my opinion. I think there is another question.

MR. GROETZINGER: John, you had talked about entering Canada as an entrepreneur, and I am wondering then, if you knew of any visa classification where a Canadian or foreign citizen could enter the U.S. as an entrepreneur, given the fact as we started this conference yesterday, that entrepreneurship is the lifeblood of an economy. If not, what has been the rationale for the lack of that?

MR. CRAIG: That is a good question. Canadians are visa exempt under many classifications.[143] There are many programs and means by which Canadians can come to the U.S. to work, and, therefore, the H1-B visa issue may not impact the ability of U.S. companies to obtain highly skilled employees from Canada.[144] There is also the NAFTA visa status, whereby many individuals from Canada and Mexico can come to the U.S. fairly easily under a NAFTA visa.[145] There are 20 to 30 various classifications and programs[146] including visa exempt[147] and visa waiver programs.[148] Canadians do not face the same barriers when entering the U.S. that others face, such as employees coming from India or China.

MR. TORMA: What we are seeing coming from Eastern Europe, some of our former customers and others – in fact, one of my very first interns from Poland, who was with us in 1993, recently came to the U.S. with his family on an investor visa – and the threshold was much lower than I expected it to be. I want to say E-4 as indicated, but I am not sure, but if you let me know, I can certainly point you in that direction.

But the investor visa was a lot lower than I thought it would be, and I am seeing some entrepreneurs from Eastern Europe beginning to use that.

Question up front. We have five minutes left, probably two questions.

DR. BARBER: The discussion about common law, which John gave us, it gave me the impression, a good impression that law always and its clauses cover all the things that people can do or think about doing, and so there has to be a kind of common sense and reasonableness characteristic to the practice of law, I suppose.

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[143] Who from Canada, Mexico and Bermuda, Needs a Nonimmigrant Vista to Enter the United States Temporarily, U.S. Dept. of State, http://travel.state.gov/visa/temp/without/without_1260.html (last visited Nov. 10, 2007).

[144] *See id.* (stating that Canadian citizens do not require a nonimmigrant visa to enter the U.S.).

[145] *See* Mexican and Canadian NAFTA Professional Worker, U.S. Dept. of State, http://travel.state.gov/visa/temp/types/types_1274.html (last visited Oct. 14, 2007).

[146] Nonimmigrant Visas, U.S. Citizenship and Immigration Services, http://www.uscis.gov/portal/site/uscis/ (last visited October 16, 2007) (follow "Education and Resources" hyperlink; then follow "Visa Resources" hyperlink; then follow "Nonimmigrant Visas" hyperlink).

[147] NAFTA, *supra* note 145.

[148] *Id.*

But the question that I have is: it sounded as though for the example you gave that, while common law of that sort with that kind of flexibleness or lack of definition, if you like, may actually be applicable, it sounded to me as though the courts don't have the option of using reasonableness and common sense in their decision, and so my question was: would they have been better not to have any kind of contract than to have one that didn't anticipate all the things that people could do because the courts can't rule on the basis of that kind of contract using the common sense and reasonableness?

I don't know if I am clear about what I am trying to get at.

MR. CRAIG: The problem arises because there are certain aspects of the common law as it relates to employment that are unfavorable to employers.[149] My view is that the courts are very concerned about the vulnerability of employees, and assuming this to be the case, they tend to err on the side of the employee.[150] Employers, therefore, must be very careful about how they frame contracts. The point I made is that if the contract fails in some respect, such as a covenant that is too broad, it may be struck out.[151] What you are left with is a default position that is unfavorable to the interest and concerns of the employer. That is why contracts have to be drafted carefully by someone with legal expertise. That being said, I do not want to leave you with the impression that the courts avoid a common sense approach; I think judges do understand the realities of the world. Virtually all of the major courts in the country have very prominent former labor lawyers who understand the realities and make an effort to ensure that the law evolves in a realistic way.

MR. TORMA: Before we get to our last question, very quickly, I would like to ask Ben to give us the nomenclature and quick executive summary of the treaty investor visa information that he found was off by two numbers.

MR. JEFFERS: Yeah. It was very good by the way. I think he was referring to the E-2 treaty investor in which someone would enter the U.S. solely to develop or direct operations of an enterprise, which a foreign employer has an active and substantial investment in.[152] So the individual

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[149] *See, e.g.*, Lyons, *supra* note 137 at 531 (stating that non-competition provisions are unenforceable unless they are reasonable).

[150] *See, e.g.*, Wallace v. United Grain Growers Ltd., [1997] 3 S.C.R. 701, 741 (Can.) (holding that the law should be mindful of the vulnerability of terminated employees and ensure their protection by encouraging proper conduct and preventing all injurious losses which might flow from acts of bad faith or unfair dealing, despite concerns that this imposes an onerous obligation on employers).

[151] *See* Hodges & Taylor, *supra* note 134 (stating that in states where courts cannot rewrite agreements that exceed the bounds of reasonableness, the covenant may simply be unenforceable).

[152] Treaty Traders and Treaty Investors, U.S. Dept of State, http://travel.state.gov/visa/temp/types/types_1273.html# (last visited Nov. 10, 2007).

that would be coming to the U.S. must have a significant or a managerial role, and that's a one-year visa.[153] So that's a means for entrepreneurs in Canada who have established businesses there.

MR. TORMA: Last question, Steve Petras from Baker Hostetler.

MR. PETRAS: I believe last time I looked under Ohio law – and I am not an employment lawyer – the Ohio Supreme Court allows what they call "blue-lining." If your clause is too restrictive, the court can pare it back to something that is reasonable.

Is it true in Ontario or Canada? Do the courts do that? What if you had a clause in your contract that said, "We are too broad. Cut us back"?

MR. CRAIG: According to the Ontario Court of Appeals in the case I mentioned earlier, they are not prepared to do that.[154] You would have to have a severability clause,[155] which provides that if a non-compete provision is too broad and therefore struck out, a non-solicitation provision would still be enforceable.[156] In this way you will get to the same result, however, judges will not do it for you.

MR. TORMA: Thank you to Ben and John, and to all of you for participating. Excellent questions. Excellent questions.

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[153] *Id*; *see generally* Treaty Trader & Treaty Investor, U-S-A Immigration.com, http://www.u-s-a-immigration.com/INS/treaty_trader_visa.htm (last visited Nov. 10, 2007) (explaining that the initial "E" visa period is for the term of one year, although the visa can be extended almost infinitely).

[154] IT/Net Inc., supra note 111.

[155] *See, e.g.*, Globex Foreign Exchange Corp. v. Kelcher, No. 050108056, 2005 ABQB 676 (Alta. Q.B. Sept. 7, 2005), *available at* 2005 AB.C. LEXIS 1489 (employing severance where the agreement included a severability clause).

[156] *Cf. id.* (upholding the non-solicitation provision and modifying the overbroad restrictive covenant to a reasonable level).