

CONTRACTS—HOLDOVER AGREEMENTS—EMPLOYER NOT ENTITLED TO ENFORCEMENT OF HOLDOVER AGREEMENT WHERE HE DOES NOT HAVE A PROPRIETARY INTEREST IN THE INFORMATION USED BY HIS FORMER EMPLOYEE IN CONCEIVING THE INVENTION—*Ingersoll-Rand Co. v. Ciavatta*, 110 N.J. 609, 542 A.2d 879 (1988).

It is a general principle of law that a contract in restraint of trade or occupation is valid only if reasonable.¹ This principle follows from the premise that an individual should not be restrained by contract from utilizing his skill, knowledge and experience to earn a living.² The courts have, therefore, required special justification for an employment contract which imposes restrictions on an employee following the termination of his employment.³

A holdover or trailer clause is a contractual provision which requires an inventor to assign to his former employer any invention conceived by him during some specified period proceeding the termination of his employment.⁴ Inherent in every holdover clause are the conflicting interests of the employer and the employee.⁵ Employers have an interest in preventing the use and disclosure of business information,⁶ as well as in receiving a just

¹ 14 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS, § 1636, at 88 (3d ed. 1972). In determining the question of reasonableness, the court must consider: "1. The question whether the promise is broader than is necessary for the protection of the covenantee in some legitimate interest; 2. The effect of the promise . . . upon the covenantor, and 3. The effect of the promise . . . upon the public." *Id.* at 92-93.

² *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 773 (S.D. Ohio 1969).

³ 6A A. CORBIN, CONTRACTS, § 1394, at 100 (1962). Corbin explained that there is no special justification where:

the harm caused by service to another consists merely in the fact that the new employer becomes a more efficient competitor just as the first employer did through having a competent and efficient employee. A restraint on the employee is illegal when its purpose is the prevention of competition, except when the methods of competition to be prevented are methods commonly regarded as improper and unfair.

Id.

⁴ *Doherty & Iandiorio, The Law of the Employed Inventor—Time for a Change?*, 57 MASS. L.Q. 27, 36 (1972).

⁵ See *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 137-38 (1965).

⁶ *Id.* at 138. The *Winston* court noted that "restrictions upon an employee's disclosure of information which was developed as a result of the employer's initiative and investment, and which was entrusted to the employee in confidence, are necessary to the maintenance of decent standards of morality in the business community." *Id.*

return on their investment in training employees.⁷ Conversely, employees have an interest in using their personal skills and knowledge in a manner which allows them to reap maximum benefits.⁸ Thus, underlying the question of enforceability of holdover clauses is the desire for individuality and independence, coupled with the reality that we are in large part a society of employees.⁹ Recently, in *Ingersoll-Rand Co. v. Ciavatta*,¹⁰ the New Jersey Supreme Court limited the enforcement of holdover agreements to inventions in which the employee utilized his former employer's "proprietary" information obtained during his employment.¹¹

In the latter part of 1974, Armand Ciavatta¹² was hired by Ingersoll-Rand Research, Inc.¹³ as a program manager.¹⁴ As a condition of his employment, Ciavatta signed an agreement which contained a provision requiring him to assign to Ingersoll-Rand his rights to inventions conceived within one year after the termination of his employment if such inventions were the "result of" and "attributable to" work performed while at the company.¹⁵ As program manager, Ciavatta worked on numerous

⁷ See *Irvington Varnish & Insulator Co. v. Van Norde*, 138 N.J. Eq. 99, 46 A.2d 201, 203-04 (1946).

⁸ See *GTI Corp.*, 309 F. Supp. at 773.

⁹ See O'Hern, *A Nation of Employees or Every Man a King—Who is to Say?: Some Views on Private Employment Law*, 19 SETON HALL L. REV. 842 (1989).

¹⁰ 110 N.J. 609, 542 A.2d 879 (1988).

¹¹ See *id.* at 643, 542 A.2d at 896. Initially, the court espoused that it was recognizing as protectible some information which did not rise to the level of proprietary. *Id.* at 638, 542 A.2d at 894. At the conclusion of the decision, however, the court stated that although such information may not be trade secrets or confidential, it may be proprietary, and therefore, protectible. See *id.* at 643, 542 A.2d at 896.

¹² Armand Ciavatta had been a practicing engineer for approximately 35 years. Brief for Defendant-Appellant Armand Ciavatta at 3, *Ingersoll-Rand Co. v. Ciavatta*, 216 N.J. Super. 667, 524 A.2d 866 (App. Div. 1987), *aff'd*, 110 N.J. 609, 542 A.2d 879 (1988). Since 1950, Ciavatta was employed or self-employed in a number of engineering positions "involving a variety of engineering principles." *Ingersoll-Rand*, 110 N.J. at 614, 542 A.2d at 881. In 1972, Ciavatta was employed by the Miller Falls Division of Ingersoll-Rand as Director of Engineering and Quality Control. *Id.* at 615, 542 A.2d at 881. Ingersoll-Rand terminated Ciavatta's employment in that division and Ciavatta subsequently joined Ingersoll-Rand Research, Inc. *Id.*, 542 A.2d at 882.

¹³ Ingersoll-Rand Research, Inc. is a wholly owned subsidiary of the Ingersoll-Rand Company. *Id.* at 612, 542 A.2d at 880. Both entities were parties to the action and are referred to collectively in this note as "Ingersoll-Rand." Ingersoll-Rand has more than thirty divisions "engaged in the research, development, manufacture, and sale of products for use in various heavy industries." *Id.*

¹⁴ *Id.* at 615, 542 A.2d at 882.

¹⁵ *Id.* The agreement provided in part:

development projects, many of which involved underground mining.¹⁶ Ciavatta became particularly interested in the field of underground mining, and by 1976, he had submitted to Ingersoll-Rand thirteen patent disclosures relating to mining technology.¹⁷ Five of these ideas "were for devices to support or stabilize" the roofs of underground mines.¹⁸

In March 1978, Ciavatta was named manufacturing manager of the Split Set Division of Ingersoll-Rand Equipment Corporation.¹⁹ Ciavatta's duties as manufacturing manager of the Split Set Division included "supervising the manufacture, production, quality control, and distribution" of Ingersoll-Rand's split-set

In consideration of One Dollar (\$1.00) paid to me by Ingersoll-Rand Company (hereinafter called the "Company"), the receipt of which is hereby acknowledged, and of my employment by the Company during such time as may be mutually agreeable to the Company and myself, I have agreed as follows:

1. To assign, and I hereby do assign, to the Company, its successors and assigns, my entire right, title and interest in and to all inventions, copyrights and/or designs I have made or may hereafter make, conceive, develop or perfect, either solely or jointly with others either,

(a) during the period of such employment, if such inventions, copyrights and/or designs are related directly or indirectly, to the business of, or to the research or development work of the Company or its affiliates, or

(b) with the use of the time, materials or facilities of the Company or any of its affiliates, or

(c) within one year after termination of such employment if conceived as a result of any is attributable to work done during such employment and relates to a method, substance, machine, article or manufacture or improvements therein within the scope of the business of the Company or any of its affiliates.

Brief for Appellant, *supra* note 12, at 5. Paragraph (c) requires the assignment of inventions conceived after the termination of employment. Such a provision is commonly referred to as a trailer or holdover clause. *Ingersoll-Rand*, 110 N.J. at 625, 542 A.2d at 887.

¹⁶ Brief for Appellant, *supra* note 12, at 6. Although Ciavatta's employment through March 1978 was in a research capacity, "he was not formally involved in or assigned to research or development" of Ingersoll-Rand's split-set friction stabilizer. *Ingersoll-Rand Co. v. Ciavatta*, 210 N.J. Super. 339, 343, 509 A.2d 821, 823 (Ch. Div. 1986), *rev'd*, 216 N.J. Super. 667, 524 A.2d 866 (App. Div. 1987), *aff'd*, 110 N.J. 609, 542 A.2d 879 (1988).

¹⁷ *Ingersoll-Rand*, 110 N.J. at 616, 542 A.2d at 882. The policy at the Ingersoll-Rand Research Center was to "encourage[] the staff to be creative [and] to discuss ideas for projects or potential projects beyond those to which they had been assigned." *Id.*

¹⁸ *Id.* The trial court found that Ciavatta had no experience in the field of mining and roof supports prior to his employment with Ingersoll-Rand. See *Ingersoll-Rand*, 210 N.J. Super. at 353-54, 509 A.2d at 829.

¹⁹ *Ingersoll-Rand*, 110 N.J. at 616, 542 A.2d at 882.

friction stabilizer.²⁰ The split-set friction stabilizer is a patented device used to stabilize the roofs of metal/non-metal mines.²¹ The product has been extensively marketed by Ingersoll-Rand through advertisements and technical publications detailing its specifications and capabilities.²² As a result of its efforts, Ingersoll-Rand has enjoyed great commercial success in the sale of its split-set stabilizer.²³ On June 22, 1979, Ciavatta's association with Ingersoll-Rand's Split Set Division ended when the company discharged him.²⁴

Approximately two months after his termination, Ciavatta conceived an elliptical friction stabilizer for mine roofs.²⁵ In the months that followed, Ciavatta reduced his invention to practice and in March 1980, he filed a United States patent application.²⁶ In March 1981, Ciavatta filed an improvement patent application.²⁷ Thereafter, a United States patent was issued to Ciavatta on each application.²⁸ Ciavatta subsequently began marketing his invention and the product has been well received in the mining industry.²⁹

²⁰ *Id.* at 613, 542 A.2d at 880-81. Ingersoll-Rand was assigned the patent for the split-set stabilizer by its inventor and has spent in excess of \$1.35 million for research and development of the device. *Id.*, 542 A.2d at 881. The device is a metal cylinder which is forcibly inserted into a smaller, pre-drilled hole, in the roof of the mine thereby undergoing radical [sic] deformation and reacting "outwardly against the surface defining the hole." *Id.*

²¹ *Id.* at 614, 542 A.2d at 881.

²² *Id.*

²³ *Id.* at 616-17, 542 A.2d at 882. Ciavatta's employment in the Split Set Division did not include researching, designing, inventing or modifying friction stabilizers. *Id.* at 617, 542 A.2d at 882-83.

²⁴ *Ingersoll-Rand*, 210 N.J. Super. at 344, 509 A.2d at 824. Ingersoll-Rand contended that Ciavatta's employment was terminated because of unsatisfactory performance and poor relations with other employees. See Brief for Plaintiff-Respondent *Ingersoll-Rand* at 15, *Ingersoll-Rand Co. v. Ciavatta*, 216 N.J. Super. 667, 524 A.2d 866 (App. Div. 1987) (A-03955-85T8), *aff'd*, 110 N.J. 609, 542 A.2d 879 (1988). The trial court found, however, that Ciavatta was fired because of a conflict with his supervisor. *Ingersoll-Rand*, 210 N.J. Super. at 344, 509 A.2d at 824.

²⁵ *Ingersoll-Rand*, 110 N.J. at 617-18, 542 A.2d at 883. Ciavatta conceived the idea while he was transferring a light fixture in his home. See Brief for Appellant, *supra* note 12, at 10. Although the device is similar to Ingersoll-Rand's split-set stabilizer, it differs in two respects: the circumference is closed, not split, and the tube is elliptical in shape. *Ingersoll-Rand*, 110 N.J. at 618, 542 A.2d at 883.

²⁶ *Id.*

²⁷ See *Ingersoll-Rand*, 216 N.J. Super. at 670, 524 A.2d at 858.

²⁸ *Ingersoll-Rand*, 110 N.J. at 618, 542 A.2d at 883. In February 1982, United States Patent No. 4,316677 was awarded on the first application and in March 1982, United States Patent No. 4,322183 was awarded on the second application. *Id.*

²⁹ *Ingersoll-Rand*, 210 N.J. Super. at 344, 509 A.2d at 824. More specifically, the trial court stated that "[t]he market place has begun to accept defendant's product

In July 1982, Ingersoll-Rand requested by letter that Ciavatta assign his patent to the company.³⁰ Ciavatta, however, denied any obligation to do so.³¹ Consequently, on April 17, 1984, Ingersoll-Rand filed suit against Ciavatta, alleging that his refusal to assign the patents was in violation of his employment contract.³² Ingersoll-Rand prayed for an assignment of Ciavatta's invention and the related patents, as well as an accounting for damages.³³ Ciavatta denied that he had violated the employment agreement and asserted several affirmative defenses including laches, unenforceability of the agreement, estoppel, and unclean hands.³⁴

The New Jersey Superior Court, Chancery Division, held that although Ciavatta's invention was not based on any trade secrets or confidential information pirated from Ingersoll-Rand, the holdover clause was enforceable.³⁵ The appellate division re-

and his device appears to be a competitive threat to plaintiff's device. I find as a fact that defendant's device sells at a lower price than plaintiff's device." *Id.*

³⁰ *Ingersoll-Rand*, 110 N.J. at 619, 542 A.2d at 884.

³¹ *Id.*

³² *Id.* Additionally, the complaint alleged that Ciavatta had violated his employment contract by disclosing Ingersoll-Rand's confidential information. Brief for Appellant, *supra* note 12, at 1. At trial, Ingersoll-Rand withdrew this claim. *Id.*

³³ *Ingersoll-Rand*, 110 N.J. at 619, 542 A.2d at 884.

³⁴ *Id.* at 619-20, 542 A.2d at 884. Ciavatta later added a counterclaim to his answer, alleging libel and unfair competition. *Id.* at 620, 542 A.2d at 884. The counterclaim and Ingersoll-Rand's request for an accounting were severed for separate trial. *Id.*

³⁵ *Ingersoll-Rand*, 210 N.J. Super. at 353-55, 509 A.2d at 829-31. In reaching its decision, the trial court addressed Ciavatta's argument that the test formulated to determine the enforceability of noncompetition agreements should apply to holdover agreements. *See id.* at 347-53, 509 A.2d at 825-29. Cases that have addressed the enforceability of noncompetition clauses in employment contracts have limited enforcement of those contracts to situations where the employer's trade secrets, confidential information or customer relations are in interest. *See infra* notes 90-116 and accompanying text. The trial court believed that a covenant not to compete directly restrained the signatory's employment opportunities and the use of his skills and experience. *Ingersoll-Rand*, 210 N.J. Super. at 351, 509 A.2d at 828. This direct effect, the court reasoned, warrants the limitation imposed by the courts. *Id.* The court asserted that holdover agreements may only potentially restrict an employee in his search for employment. *Id.* In the court's opinion, such an "indirect deterrent to alternative employment" did not warrant limiting an employer's protectible interests to trade secrets and confidential information. *Id.* at 352, 509 A.2d at 828. Rather, the court stated that it would enforce the holdover agreement "if it is fair, reasonable and justifiable in light of the facts and circumstances of [the] case." *Id.* at 353, 509 A.2d at 829. In concluding that the holdover clause was enforceable, the trial court considered the following findings of fact:

- (a) The invention is related to and a direct result of defendant's employment with the plaintiff
- (b) [Ciavatta's] knowledge of the underground mining industry in gen-

versed, ruling that the test established in the line of cases deciding the enforceability of noncompetition agreements was applicable to the question of enforceability of the holdover provision.³⁶ The New Jersey Supreme Court granted certification³⁷ and affirmed, holding that the holdover agreement was unreasonable, and therefore, unenforceable as it related to Ciavatta's invention of the elliptical friction stabilizer.³⁸

Under the 1952 Patent Act, a person is not entitled to a patent if he did not invent the subject matter of the underlying invention.³⁹ Similarly, unless an inventor has contracted away his rights in his invention, the invention is generally regarded as be-

eral and the use of friction stabilizers to support mine roofs was based entirely on his employment experience with [Ingersoll-Rand]. . . .

(c) Ciavatta's employment with [Ingersoll-Rand] from 1974 exposed him to the creative processes within [Ingersoll-Rand's] organization relevant to the invention. . . .

(d) Ciavatta utilized Ingersoll-Rand's information, experience, expertise and ideas and the creative interaction gleaned from his employment [in devising his invention]. . . .

(e) Existence of the holdover clause and its enforcement would not constitute a significant deterrent to a change of employment by Ciavatta. His work experience as an engineer was varied. . . .

(f) Enforcement would not violate any legitimate expectations of defendant. . . .

(g) There is no evidence that defendant pirated trade secrets or confidential information. . . .

(h) There is no evidence that plaintiff's friction stabilizer involved trade secrets.

Id. at 353-55, 509 A.2d at 829-30.

³⁶ See *Ingersoll-Rand*, 216 N.J. Super. at 672, 524 A.2d at 869-70. Initially, the appellate court accepted the trial court's factual findings that the invention did not involve trade secrets or confidential information. *Id.* at 671, 524 A.2d at 868. However, applying the test formulated in the cases involving noncompetition agreements, the appellate court concluded that Ingersoll-Rand did not have a legitimate protectible interest in the information utilized by Ciavatta in conceiving his invention. See *id.* at 675-77, 524 A.2d at 871. Moreover, enforcement of the holdover clause would work an undue hardship on Ciavatta, as it would "impose upon [him] a prohibition, effective for one year over an unlimited geographical area, from working on mine supports." *Id.* at 676-77, 524 A.2d at 871. Accordingly, the court concluded that the holdover agreement, as it applied to Ciavatta, was not enforceable. *Id.* at 678, 524 A.2d at 872.

³⁷ *Ingersoll-Rand Co. v. Ciavatta*, 108 N.J. 192, 528 A.2d 18 (1987).

³⁸ *Ingersoll-Rand*, 110 N.J. at 643, 542 A.2d at 896. Although the supreme court affirmed the appellate court's decision to apply the test established in the noncompetition cases, the court expanded the boundaries of an employer's protectible interests. See *infra* notes 155-58 and accompanying text.

³⁹ 35 U.S.C. § 102(f) (1988). If the inventor is unable or unwilling to execute an application, it may be filed by a person who has a proprietary interest in the invention. 35 U.S.C. § 118 (1988).

ing the inventor's exclusive property.⁴⁰ The rights of the employee-inventor, however, are limited by certain common law doctrines, as well as any contractual arrangement that may exist between the employee and his employer.⁴¹

In *International Pulverizing Corp. v. Kidwell*,⁴² the court applied the common law doctrine that an employee who is employed to invent is obligated to assign to his employer the invention and resulting patents.⁴³ The defendant, Nicholas K. Stephanoff, was a mechanical engineer employed by the plaintiff, International Pulverizing Corp., to study and experiment with a new type of pulverizing mill for which the plaintiff owned a patent.⁴⁴ The plaintiff's objective was to improve the commercial efficiency of the new mill.⁴⁵ Stephanoff ended his employment with the plaintiff, and thereafter, filed a patent application for an improved pulverizing mill.⁴⁶ The plaintiff argued, and the trial court agreed, that the defendant had conceived of his improvement during the period of his employment with the plaintiff.⁴⁷ The court found that the plaintiff had employed Stephanoff, at least impliedly, to invent and improve the pulverizing mill and that the parties understood that any invention resulting from Stephanoff's endeavors would belong to the plaintiff.⁴⁸ Thus, the court ordered Stephanoff to assign all of his interest in the improved mill patent to the plaintiff.⁴⁹

Even where an employee is not hired to invent, an employer

⁴⁰ See *New Jersey Zinc Co. v. Singmaster*, 71 F.2d 277, 279 (2d Cir. 1934), *cert. denied*, 293 U.S. 591 (1934); *International Pulverizing Corp. v. Kidwell*, 7 N.J. Super. 345, 348, 71 A.2d 151, 152 (Ch. Div. 1950).

⁴¹ See Comment, *Employer's and Employee's Rights in Patents Arising From the Employment*, 11 VILL. L. REV. 823, 826-29 (1966).

⁴² 7 N.J. Super. 345, 71 A.2d 151 (Ch. Div. 1950).

⁴³ *Id.* at 347, 71 A.2d at 151-52.

⁴⁴ *Id.* at 349, 71 A.2d at 153.

⁴⁵ *Id.*

⁴⁶ *Id.* at 351, 353, 71 A.2d at 154-55. Defendant was subsequently granted a patent. *Id.* at 353, 71 A.2d at 155.

⁴⁷ *Id.* at 354, 358, 71 A.2d at 155-56, 158.

⁴⁸ *Id.* at 358, 71 A.2d at 158.

⁴⁹ *Id.* at 359, 71 A.2d at 158. The court expressed the applicable rule of law: Where a person expressly or impliedly contracts to devote his mental faculties and exercise his inventive ability for the benefit of his employer, the inventions conceived by him in the course of his employment and as a consequence of its pursuit belong in equity to the employer. *Id.* at 347, 71 A.2d at 151-52 (citing *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933); *Standard Parts Co. v. Peck*, 264 U.S. 52 (1924); *Solomons v. United States*, 137 U.S. 342 (1890); *Marcalus Mfg. Co. v. Sullivan*, 142 N.J. Eq. 434, 60 A.2d 330 (Ch. 1948); *Pomeroy Ink Co. v. Pomeroy*, 77 N.J. Eq. 293, 78 A. 698 (Ch. 1910); *Connelly Mfg. Co. v. Wattles*, 49 N.J. Eq. 92, 23 A. 123 (Ch. 1891)).

may obtain an interest in the employee's invention if the employee utilized the employer's resources in the discovery.⁵⁰ This "shop-right rule" was first applied by the New Jersey Supreme Court in *Kinkade v. New York Shipbuilding Corp.*⁵¹ The plaintiff in *Kinkade* was employed by the defendant to install sleeping bunks on military ships.⁵² On his own time, the plaintiff conceived of a device which simplified the installation of the bunks.⁵³ On company time and with company materials, the plaintiff manufactured a sample of his device.⁵⁴ Thereafter, the company utilized the plaintiff's design and in so doing, substantially reduced its labor costs.⁵⁵ Receiving no additional compensation, the plaintiff sought damages from his employer for the use of his device.⁵⁶ The New Jersey Superior Court, Law Division, entered judgment on a jury verdict for five thousand dollars.⁵⁷ The Supreme Court of New Jersey certified the case on its own motion and reversed.⁵⁸ In arriving at its conclusion, the court first noted the mere fact that an inventor is employed at the time of conception of an invention does not give any interest in the invention to the employer.⁵⁹ The court held, however, that New York Shipbuilding Corporation had an irrevocable but non-exclusive right to use the plaintiff's invention although it was conceived by the plaintiff on his own time.⁶⁰ The court reasoned that since the plaintiff used the defendant's "time, facilities, and materials to attain a concrete result, the latter [was] in equity entitled to use that which embodies his own property and to duplicate it as often as he may find occasion."⁶¹

⁵⁰ Comment, *supra* note 41, at 828. This common law interest is not an assignment of the employee's rights. Rather, it is a non-exclusive license to use an employee's invention. *Id.* See also *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188 (1933); *Kinkade v. New York Shipbuilding Corp.*, 21 N.J. 362, 369-71, 122 A.2d 360, 363-65 (1956); 9 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS, § 1016, at 110 (3d ed. 1967 & Supp. 1984).

⁵¹ 21 N.J. 362, 122 A.2d 360 (1956).

⁵² *Id.* at 365, 122 A.2d at 361. The defendant, New York Shipbuilding Corp., had contracted with the government to convert three passenger liners into military vessels. *Id.* The installation of the sleeping bunks was part of the conversion. *Id.*

⁵³ *Id.* at 365-66, 122 A.2d at 362.

⁵⁴ *Id.* at 367, 122 A.2d at 362.

⁵⁵ See *id.* at 366, 122 A.2d at 362.

⁵⁶ *Id.* at 368, 122 A.2d at 363.

⁵⁷ *Id.* at 364, 122 A.2d at 361.

⁵⁸ *Id.*

⁵⁹ See *id.* at 369, 122 A.2d at 363-64.

⁶⁰ *Id.* at 371-72, 122 A.2d at 365.

⁶¹ *Id.* at 371, 122 A.2d at 364 (quoting *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 188 (1933)).

The common law doctrines applied in *Kidwell* and *Kinkade* establish an employer's rights in an employee's invention, irrespective of an employment contract.⁶² Most modern technical companies, however, do not rely on these common law doctrines to establish their rights.⁶³ Instead, they require their starting employees to sign assignment agreements in an attempt to fix their rights in their employees' inventions.⁶⁴ The New Jersey Supreme Court addressed the validity of such an agreement in *Misani v. Ortho Pharmaceutical Corp.*⁶⁵ In *Misani*, the defendant, Ortho Pharmaceutical Corp. employed plaintiff as an organic chemist to conduct research.⁶⁶ As a condition of her employment, plaintiff executed an agreement which required her to assign to Ortho "all of her rights in inventions, improvements and ideas which she might make or conceive during her employment."⁶⁷ Sometime after the termination of her employment, plaintiff brought an action against Ortho for damages that allegedly were caused by Ortho's failure to designate plaintiff as an "inventor" in a patent application.⁶⁸ The trial court ruled that Ortho owned any inventions made by plaintiff during the course of her employment by virtue of the assignment agreement.⁶⁹ The appellate court upheld the validity of the assignment agreement⁷⁰ and the New Jersey Supreme Court affirmed that portion of the appellate court's holding.⁷¹

⁶² For a further discussion of the common law doctrines see Note, *Patent Ownership: An Employer's Rights to His Employee's Invention*, 58 NOTRE DAME L. REV. 863 (1983).

⁶³ *Id.* at 875.

⁶⁴ Note, *Reform for Rights of Employed Inventors*, 57 S. CAL. L. REV. 603, 608 (1984). Pursuant to such agreements, an employer may obtain patent rights in or ownership of inventions conceived by the employee. *Id.*

⁶⁵ 44 N.J. 552, 210 A.2d 609 (1965), *appeal dismissed*, 382 U.S. 203 (1965).

⁶⁶ *Id.* at 554, 210 A.2d at 610.

⁶⁷ *Id.*

⁶⁸ *Misani v. Ortho Pharmaceutical Corp.*, 83 N.J. Super. 1, 8, 198 A.2d 791, 794 (App. Div. 1964), *rev'd*, 44 N.J. 552, 210 A.2d 609, *appeal dismissed*, 382 U.S. 203 (1965).

⁶⁹ *Id.* at 12, 198 A.2d at 796.

⁷⁰ *Id.*, 198 A.2d at 796-97. The appellate court further stated that: Ortho owed her no duty to patent, or refrain from patenting, these inventions or any aspect of them, or, if it did apply for patents, to do so properly or adequately, or to repair any deficiency in the patent issued, by amendment or otherwise.

Id. at 14, 198 A.2d at 797.

⁷¹ *Misani*, 44 N.J. at 554, 210 A.2d at 610 (citing *Patent & Licensing Corp. v. Olsen*, 188 F.2d 522, 525 (2d Cir. 1951); *Paley v. Du Pont Rayon Co.*, 71 F.2d 856, 858 (7th Cir. 1934); *Goodyear Tire & Rubber Co. v. Miller*, 22 F.2d 353, 355 (9th Cir. 1927); *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952);

Prior to *Ingersoll-Rand Co. v. Ciavatta*, no New Jersey court had addressed the validity and enforceability of employment agreements which purport to bind an inventor to assign an invention conceived by him after the termination of his employment.⁷² New Jersey courts did, however, previously address the validity of post-employment restrictions arising from noncompetition clauses in employment contracts.⁷³ The Court of Errors and Appeals considered the enforceability of such an agreement in *Irvington Varnish Insulator Co. v. Van Norde*.⁷⁴

In *Irvington*, the defendant, Van Norde, entered into an employment agreement with plaintiff, Irvington, which required him to "refrain from engaging in, being employed by, or otherwise connected with . . . any competing business enterprise located in the United States" for a period of two years following the termination of his employment.⁷⁵ Subsequently, Van Norde terminated his employment with plaintiff and accepted a position with a competitor.⁷⁶ Irvington sought to enforce the covenant not to compete against its former employee, alleging that he had gained confidential information as to plaintiff's machinery, equipment, methods and processes.⁷⁷ The trial court found that Irvington had failed to establish that Van Norde had acquired any confidential information from Irvington and accordingly dismissed its complaint.⁷⁸

The Court of Errors and Appeals reversed, holding that it

RESTATEMENT (SECOND) OF AGENCY § 397 comment a (1958)). *But see* Note, *supra* note 64, at 608 (asserting that the *Misani* court's enforcement of such a broad agreement "will discourage inventive employees from pursuing private investigations outside the scope of their work assignments").

⁷² *Ingersoll-Rand*, 110 N.J. at 627, 542 A.2d at 888.

⁷³ *See, e.g.*, *Karlin v. Weinberg*, 77 N.J. 408, 390 A.2d 1161 (1978); *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 274 A.2d 577 (1971); *Solari Indus. v. Malady*, 55 N.J. 571, 264 A.2d 53 (1970); *A.T. Hudson & Co. v. Donovan*, 216 N.J. Super. 426, 524 A.2d 412 (App. Div. 1987); *Raven v. A. Klein & Co.*, 195 N.J. Super. 209, 478 A.2d 1208 (App. Div. 1984); *Mailman, Ross, Toyes & Shapiro v. Edelson*, 183 N.J. Super. 434, 444 A.2d 75 (Ch. Div. 1982); *Dwyer v. Jung*, 133 N.J. Super. 343, 336 A.2d 498 (Ch. Div. 1975), *aff'd*, 137 N.J. Super. 135, 348 A.2d 208 (App. Div. 1975). The supreme court in *Ingersoll-Rand* relied heavily on its prior determinations regarding the enforceability of covenants not to compete in employment contracts. *See Ingersoll-Rand*, 110 N.J. at 627-30, 542 A.2d at 888-89. The development of those cases is therefore discussed here.

⁷⁴ 138 N.J. Eq. 99, 46 A.2d 201 (E. & A. 1946).

⁷⁵ *Id.* at 101, 46 A.2d at 202. The purported consideration for this promise was the employee's continued employment. *Id.*

⁷⁶ *Id.* at 102, 46 A.2d at 202.

⁷⁷ *Id.* at 101, 46 A.2d at 202.

⁷⁸ *Id.* at 102-03, 46 A.2d at 202-03.

was not necessary that Irvington's methods or processes be "secret in the sense that they [were] known only to the employer and those [employees in whom he confided]." ⁷⁹ The majority noted that during the course of employment, an employee acquires skill and knowledge in his employer's business at the expense of the employer. ⁸⁰ The majority reasoned that a noncompetition agreement was a reasonable method of preventing the employee or a competitor from taking "unfair advantage" of the employer by using knowledge and skill acquired during the employment. ⁸¹

In his dissenting opinion, Justice Bodine asserted that such restrictions have only been enforced to the extent necessary to protect the employer's property rights. ⁸² Further, the justice posited that the effect of the majority's decision was to "deprive[] the employee of the right to use his skill in the only industry he has knowledge of." ⁸³

In 1949, the validity of a noncompetition agreement was considered by the New Jersey Supreme Court. ⁸⁴ In *A. Hollander & Son, Inc. v. Imperial Fur Blending Corp.*, ⁸⁵ the plaintiff, sought to enforce the terms of a noncompetition agreement and obtain damages resulting from the defendant's use of its secret processes. ⁸⁶ Initially, the supreme court noted that noncompetition agreements are enforceable if the "prohibition is reasonably necessary for the protection of the business of the employer, is not unreasonably restrictive in point of time or territory upon the rights of the employee, and is not prejudicial to the public interests." ⁸⁷ In holding that the plaintiff was entitled to injunctive relief and an accounting for damages, the supreme court asserted that the existence of a protectible "secret" is not determinative of the employer's right to protection. ⁸⁸ In reaching its decision,

⁷⁹ *Id.* at 105, 46 A.2d at 204.

⁸⁰ *See id.* at 104, 46 A.2d at 203-04.

⁸¹ *Id.*, 46 A.2d at 203.

⁸² *Id.* at 106, 46 A.2d at 204 (Bodine, J., dissenting) (citing *Sternberg v. O'Brien*, 48 N.J. Eq. 370, 22 A. 348 (Ch. 1891)).

⁸³ *Id.*

⁸⁴ *A. Hollander & Son, Inc. v. Imperial Fur Blending Corp.*, 2 N.J. 235, 66 A.2d 319 (1949).

⁸⁵ 2 N.J. 235, 66 A.2d 319 (1949).

⁸⁶ *Id.* at 239, 66 A.2d at 320.

⁸⁷ *Id.* at 248, 66 A.2d at 325 (citing *Irvington Varnish & Insulator Co. v. Van Norde*, 138 N.J. Eq. 99, 46 A.2d 201 (N.J. 1946); *Silbros, Inc. v. Solomon*, 139 N.J. Eq. 528, 52 A.2d 534 (Ch. 1947)).

⁸⁸ *Id.* More specifically, the court stated that:

[t]he validity of the covenant is not predicated on methods or processes secret in fact and revealed to the employee in confidence but rests on

however, the court relied exclusively on facts which established that the defendant had pirated certain of Hollander's business secrets.⁸⁹

The present test to determine the enforceability of noncompetitive agreements was first set forth in *Solari Indus. v. Malady*.⁹⁰ In *Solari*, after the termination of his employment, Malady obtained a franchise from an Italian company for the distribution of a product which competed with the products distributed by Malady's former employer, Solari.⁹¹ Solari sued Malady seeking an interlocutory injunction against Malady's distribution activities for a breach of a noncompetition agreement.⁹² Solari asserted that Malady posed a substantial risk to its customer relations.⁹³ The chancery court found that the covenant not to compete to violate New Jersey's public policy because it did not contain any express geographical limitations.⁹⁴

The New Jersey Supreme Court granted leave to appeal and held that regardless of whether a noncompetition provision is divisible by its terms, it is subject to total or partial enforcement "to the extent reasonable under the circumstances."⁹⁵ In remanding the case to the chancery court for further factual findings, the supreme court stated that employers are entitled "to

the protection afforded an employer against disclosure of business and industrial methods and processes used, records compiled and customer contacts made in the employment.

Id.

⁸⁹ See *id.* at 249, 66 A.2d at 325-26. See *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 31, 274 A.2d 577, 581 (1971) (finding that the facts relied on in *Hollander* bring it fairly in line with the subsequent decision of *Solari Indus. v. Malady*, 55 N.J. 571, 264 A.2d 53 (1970)).

⁹⁰ 55 N.J. 571, 264 A.2d 53 (1970).

⁹¹ *Id.* at 574, 264 A.2d at 54-55.

⁹² *Id.*, 264 A.2d at 55. The noncompetition agreement in Malady's employment contract provided as follows:

Malady agrees that on the termination of his employment, for any reason whatsoever, he will not for one year thereafter engage, either directly or indirectly, without the prior consent in writing of the Board of Directors of Solari Industries, in promoting or selling equipment, products, appliances or systems similar to or competitive with any of those represented by Solari Industries or Solari America nor will he within said year divert or attempt to divert from Solari Industries or Solari America or any business represented by it any business whatsoever, particularly by influencing or attempting to influence any of the customers with whom he may have had dealings in connection with the promotion of equipment, products, appliances or systems hereunder.

Id. at 573, 264 A.2d at 54.

⁹³ See *id.* at 586, 264 A.2d at 61.

⁹⁴ *Id.* at 575, 264 A.2d at 55.

⁹⁵ *Id.* at 585, 264 A.2d at 61.

that limited measure of relief within the terms of the noncompetitive agreement which is reasonably necessary to protect their legitimate interests, will cause no undue hardship on the [former employee], and will not impair the public interest.”⁹⁶ The supreme court concluded that if the findings on remand established that Solari’s customer relations were indeed at risk, the injunction should restrain Malady only from dealing with Solari’s actual or prospective customers.⁹⁷

Approximately one year later, in *Whitmyer Bros. v. Doyle*,⁹⁸ the New Jersey Supreme Court defined the “legitimate interests” protectible under the first prong of the reasonableness test announced in *Solari*.⁹⁹ In *Whitmyer*, the plaintiff sought a preliminary injunction enjoining its former employees¹⁰⁰ from operating a competing business.¹⁰¹ One of the defendants, Doyle, had been employed as general manager of the plaintiff’s northern division and had also served as an officer and director of the company.¹⁰² After Doyle left the plaintiff’s employ and began operating a competing business, the plaintiff instituted suit, seeking enforcement of a noncompetition clause in Doyle’s employment contract.¹⁰³

The trial court entered an order restraining the defendants, pending a final hearing, from competing with the plaintiff.¹⁰⁴ The trial judge ordered the injunction based on the existence of the restrictive covenant, without regard to the plaintiff’s “legitimate interests,” the “hardship” imposed on the defendants or the injury “to the public.”¹⁰⁵ The appellate court granted a stay

⁹⁶ *Id.*

⁹⁷ *Id.* at 586, 264 A.2d at 61.

⁹⁸ 58 N.J. 25, 274 A.2d 577 (1971).

⁹⁹ *Solari Indus.*, 55 N.J. at 585, 264 A.2d at 61.

¹⁰⁰ Although plaintiff’s complaint named Doyle, Smith, Wetterau and Statewide Hi-Way Safety, Inc. as defendants, the action centered around a noncompetition agreement between the plaintiff and Doyle. See *Whitmyer*, 58 N.J. at 28, 274 A.2d at 578.

¹⁰¹ *Id.* The plaintiff was in the business of erecting guard rails and fences. *Id.* at 27, 274 A.2d at 578. The plaintiff’s customers were primarily governmental entities and most of the work was retained by way of public bidding. *Id.* at 38, 274 A.2d at 583.

¹⁰² *Id.* at 27-28, 274 A.2d at 578.

¹⁰³ *Id.* Plaintiff sought to enjoin Doyle from being connected “in any manner with the ownership, management, operation or control of any business” in competition with Whitmyer. *Id.* at 28, 274 A.2d at 578. The proscription was for five years and was restricted geographically to all “state[s] east of the Mississippi [and] in any other state in which Whitmyer had operated within three years.” *Id.*

¹⁰⁴ *Id.* at 30, 274 A.2d at 579.

¹⁰⁵ See *id.*, 274 A.2d at 579-80.

of the injunction pending determination of the application for leave to appeal, but leave was denied and the stay was vacated.¹⁰⁶ Finding that the plaintiff did not sufficiently establish "legitimate interests" warranting a preliminary injunction, the supreme court reversed the trial court's order.¹⁰⁷

Writing for a unanimous court, Justice Jacobs began by stating that an employee's covenant not to compete is enforceable if it " 'simply protects the legitimate interests of the employer, imposes no undue hardship on the employee, and is not injurious to the public.' " ¹⁰⁸ The court then delimited the legitimate protectible interests of any employer.¹⁰⁹ Initially, the *Whitmyer* court noted that the stifling of competition is not a legitimate interest worthy of judicial protection.¹¹⁰ Rather, the court stated that an employer's protectible interests are limited to trade secrets, confidential information and customer relationships.¹¹¹ The court stated that the general knowledge and information of an industry are neither trade secrets nor confidential information and an employer may not enjoin a former employee from using such knowledge and information.¹¹² In so ruling, the *Whitmyer* court expressly adopted Justice Bodine's dissenting opinion in *Irvington*.¹¹³ The supreme court found that the plaintiff had failed to establish that Doyle was utilizing trade secrets or confidential information.¹¹⁴ The court further declared that the record did not

¹⁰⁶ *Id.* at 31, 274 A.2d at 580.

¹⁰⁷ *See id.* at 37-38, 274 A.2d at 583-84.

¹⁰⁸ *Id.* at 32-33, 274 A.2d at 581 (quoting *Solari Indus. v. Malady*, 55 N.J. 571, 576, 264 A.2d 53, 56 (1970)).

¹⁰⁹ *See id.* at 33-38, 274 A.2d at 581-84.

¹¹⁰ *Id.* at 33, 274 A.2d at 581.

¹¹¹ *See id.* at 33-38, 274 A.2d at 581-84. Even in the absence of a restrictive covenant, an employer may enjoin his former employees from using or disclosing trade secrets learned in confidence during employment. *See Sun Dial Corp. v. Rideout*, 16 N.J. 252, 108 A.2d 442 (1954).

¹¹² *Whitmyer*, 58 N.J. at 33-34, 274 A.2d at 581. Thus, upon the termination of his employment, an employee may use the general skills and knowledge acquired during his employment. *Boost Co. v. Faunce*, 17 N.J. Super. 458, 464, 86 A.2d 283, 286 (App. Div. 1952). *See also* *Great Lakes Carbon Corp. v. Koch Indus.*, 497 F. Supp. 462, 470 (S.D.N.Y. 1980) ("[A] former employee cannot be restrained from using his faculties, skills or experience learned, acquired or developed during his former employment."); *Reading & Bates Constr. Co. v. O'Donnell*, 627 S.W.2d 239, 243 (Texas Ct. App. 1982) ("[A] former employee may use in later employment or venture the general skills, knowledge and experience which he has acquired . . . even if the former employment has acted to increase his skills and if such training is complex and extensive.").

¹¹³ *Whitmyer*, 58 N.J. at 34-35, 274 A.2d at 582 (citing *Irvington Varnish and Insulator Co. v. Van Norde*, 138 N.J. Eq. 99, 46 A.2d 201 (E. & A. 1946)).

¹¹⁴ *Id.* at 37, 274 A.2d at 583. Although plaintiff had asserted that defendants

support a finding that Doyle posed a risk of harm to the plaintiff's customer relationships.¹¹⁵ Accordingly, the supreme court reversed the trial court's order granting plaintiff a preliminary injunction.¹¹⁶

Subsequent to the decision in *Whitmyer*, New Jersey courts have adjudicated the enforceability of noncompetition covenants in numerous cases.¹¹⁷ *Ingersoll-Rand v. Ciavatta*, however, was the first New Jersey case involving the question of enforceability of a holdover clause.¹¹⁸ In *Ingersoll-Rand*,¹¹⁹ the New Jersey Supreme

were using bidding procedures which were either trade secrets or confidential information, the court believed that a preliminary injunction was inappropriate because defendants rebutted these allegations in a comprehensive denial. *Id.*

¹¹⁵ *Id.* at 38, 274 A.2d at 583-84. This was so because most of the work involved public bidding and jobs would be awarded on the basis of price and not personal considerations. *Id.* at 38, 274 A.2d at 583.

¹¹⁶ *Id.*, 274 A.2d at 584.

¹¹⁷ See, e.g., *Karlin v. Weinberg*, 77 N.J. 408, 390 A.2d 1161 (1978); *A.T. Hudson & Co. v. Donovan*, 216 N.J. Super. 426, 524 A.2d 412 (App. Div. 1987); *Raven v. A. Klein & Co.*, 195 N.J. Super. 209, 478 A.2d 1208 (App. Div. 1984); *Mailman, Ross, Toyes & Shapiro v. Edelson*, 183 N.J. Super. 434, 444 A.2d 75 (Ch. Div. 1982); *Dwyer v. Jung*, 133 N.J. Super. 343, 336 A.2d 498 (Ch. Div.), *aff'd*, 137 N.J. Super. 135, 348 A.2d 208 (App. Div. 1975).

¹¹⁸ *Ingersoll-Rand*, 110 N.J. at 627, 542 A.2d at 888. This issue has been considered, however, by several federal courts. See, e.g., *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447 (Ct. Cl. 1970); *Armorlite Lens Co. v. Campbell*, 340 F. Supp. 273 (S.D. Cal. 1972); *GTI Corp. v. Calhoon*, 309 F. Supp. 762 (S.D. Ohio 1969); *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952).

In determining the enforceability of a five year holdover agreement, the *Calhoon* court considered the following three principles of law:

- (1) Is the restraint reasonable in the sense that it is no greater than necessary to protect the employer in some legitimate interest?
- (2) Is the restraint reasonable in the sense that it is not unduly harsh and oppressive on the employee?
- (3) Is the restraint reasonable in the sense that it is not injurious to the public?

Calhoon, 309 F. Supp. at 773 (citing *Briggs v. Butler*, 140 Ohio St. 499, 45 N.E.2d 757 (1942)). The *Calhoon* court concluded that the holdover agreement unreasonably restricted the defendant from utilizing "his general skill and knowledge in subsequent employment and is void against public policy." *Id.*

In *Armorlite Lens Co.*, the court held that to require an assignment of an invention conceived after the termination of employment where the invention was not based upon the employer's trade secrets or confidential information would amount to an unreasonable restraint of trade. *Armorlite Lens Co.*, 340 F. Supp. at 275. The court stated that an agreement which required such an assignment was, therefore, void and unenforceable. *Id.*

Other cases have not taken such a restrictive view of holdover provisions. In *Universal Winding Co.*, the district court applied the test established by the Rhode Island courts in deciding the reasonableness of covenants not to compete. *Universal Winding Co.*, 108 F. Supp. at 333. Under the test, explained the court, a covenant is void and unenforceable if it "extends beyond any apparently necessary protection which the [employer] might reasonably require, and thus, without benefiting him, it

Court decided that both types of post-employment restrictions implicated similar interests and are to be decided by the same standard.¹²⁰ In so doing, the court ruled that the holdover agreement between Ciavatta and Ingersoll-Rand was not enforceable.¹²¹

Justice Garibaldi, writing for a unanimous court, began her analysis by discussing the common law position regarding the rights of an employee and the employer concerning the employee's invention.¹²² The justice restated the long recognized principle that the common law protects and enforces an inventor's rights to his or her invention.¹²³ However, certain exclusive and non-exclusive rights to an employee's invention may inhere in the employer as a result of the inventor's employment status.¹²⁴ The court explained that rather than relying on ambiguous common law doctrines to define their rights to an employee's

oppresses the [employee], and deprives people in other places of the chance which might be offered them' to avail themselves of his services." *Id.* at 332-33 (quoting *Herrshoff v. Boutineau*, 17 R.I. 3, 7-8, 19 A. 712, 713 (1890)). In holding that the one-year holdover agreement was valid and enforceable, the court found that the provision did not unreasonably restrict the employee:

Under my interpretation, the field of design from which the employee was excluded was a field (a) in which he had had no experience prior to this employment and (b) which was but an insignificant fraction of the entire field of machine design.

Id. at 333. The district court did, however, emphasize the fact that the employee was exposed to the employer's current information and designs which were still in an embryonic state. *Id.* Thus, the district court reasoned that the employer had a protectible interest. *Id.*

The court in *Dorr-Oliver, Inc.*, refused to enforce a one-year holdover agreement to an invention for a cargo trailer where the employee had not worked on cargo trailers during the prior employment. *Dorr-Oliver*, 432 F.2d at 452. The court espoused that to be enforceable, a holdover clause "must be limited to reasonable times and to subject matter which an employee worked on or had knowledge of during his employment." *Id.* at 452. Holdover agreements, declared the court, provide a legitimate means to prevent "an employee from appropriating to his own use or to the use of a subsequent employer inventions relating to and stemming from work done for a previous employer." *Id.*

¹¹⁹ 110 N.J. 609, 542 A.2d 879 (1988).

¹²⁰ *See id.* at 634, 542 A.2d at 892.

¹²¹ *Id.* at 640, 542 A.2d at 895.

¹²² *See id.* at 622-23, 542 A.2d at 885-86.

¹²³ *Id.* at 622, 542 A.2d at 885 (citing *Blum v. Commissioner of Internal Revenue*, 183 F.2d 281 (3d Cir. 1950); *New Jersey Zinc Co. v. Singmaster*, 71 F.2d 277, 279 (2d Cir.), *cert. denied*, 293 U.S. 591 (1934); *International Pulverizing Corp. v. Kidwell*, 7 N.J. Super. 345, 348, 71 A.2d 151, 152 (Ch. Div. 1950); 53 AM. JUR. 2D *Master and Servant* § 111 (1970); 56 C.J.S. *Master and Servant* § 73 (1948); 2 L. ALTMAN, CALLMAN'S UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14.27 (4th ed. 1982)).

¹²⁴ *See supra* notes 42-61 and accompanying text.

invention, most employers allocate invention rights through employment agreements.¹²⁵ These employment agreements, observed the supreme court, whereby an employee agrees to assign to his or her "employer inventions designed or conceived *during the period of employment*," are enforceable as long as they are not unreasonable.¹²⁶

The supreme court noted that the contract provision at issue in *Ingersoll-Rand* was for the assignment of an invention conceived after the termination of Ciavatta's employment.¹²⁷ In examining the public policy issues implicated by the enforceability of such a provision, the court posited that there is concern that the lack of sufficient motivation for an employee-inventor is resulting in fewer United States patents issued to United States citizens and companies.¹²⁸ The court declared that the decisions of *Boost*,¹²⁹ holding that an inventor may use the general skills and knowledge learned through his or her employment, and *Whitmyer*,¹³⁰ holding that an employer could not prevent a former employee from competing with him, both served to encourage an inventor's creativity.¹³¹ On the other hand, the court observed that an employer has a legitimate interest in protecting its "trade secrets, confidential information and customer relations."¹³² Justice Garibaldi noted that in recognition of these competing interests, courts have enforced holdover agreements which they have found to be reasonable.¹³³

¹²⁵ *Ingersoll-Rand*, 110 N.J. at 623, 542 A.2d at 886 (citing *Jamesbury Corp. v. Worcester Valve Co.*, 443 F.2d 205, 214 (1st Cir. 1971); Note, *Reform for Rights of Employed Inventors*, 57 S. CAL. L. REV. 603, 608 (1984); Gullette, *State Legislation Governing Ownership Rights in Inventions Under Employee Invention Agreements*, 62 J. PAT. OFF. SOC'Y 732, 738 (1980)).

¹²⁶ *Id.* (emphasis added). Specifically, the court stated that "[c]ourts, however, will not enforce invention assignment contracts that unreasonably obligate an employee in each and every instance to transfer the ownership of the employee's invention to the employer." *Id.* at 624, 542 A.2d at 886 (citing Comment, *Employer's and Employee's Rights in Patents Arising from the Employment*, 11 VILL. L. REV. 823 (1966)).

¹²⁷ *Id.* at 625, 542 A.2d at 887.

¹²⁸ *Id.* at 625-26, 542 A.2d at 887. The effect, it is feared, is that the United States will no longer lead the world in technology. *Id.* at 625, 542 A.2d at 887.

¹²⁹ See *supra* note 112.

¹³⁰ 58 N.J. 25, 274 A.2d 577 (1971). For a discussion of the *Whitmyer* decision, see *supra* text accompanying notes 98-116.

¹³¹ *Ingersoll-Rand*, 110 N.J. at 626, 542 A.2d at 887.

¹³² *Id.* (citing *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 32-33, 274 A.2d 577, 581 (1971); *Solari Indus. v. Malady*, 55 N.J. 571, 576, 264 A.2d 53, 56 (1970)).

¹³³ *Id.* The court stated that generally a clause is found to be unreasonable if it: "(1) extends beyond any apparent protection that the employer reasonably requires; (2) prevents the inventor from seeking other employment; or (3) adversely

The justice acknowledged that the issue of enforceability of a holdover agreement was one of first impression for a New Jersey court.¹³⁴ In adjudicating the case, however, the court considered the concerns inherent in the enforceability of a holdover agreement to be analogous to those addressed in cases determining the enforceability of noncompetition agreements.¹³⁵ The court reasoned that the standard of enforceability of employee noncompetition contracts was applicable to the determination of the enforceability of holdover agreements.¹³⁶ Recognizing that a noncompetition agreement is given effect if it is reasonable under the circumstances,¹³⁷ the court recounted the reasonableness test articulated in *Solari*¹³⁸ and *Whitmyer*¹³⁹ as whether the covenant " 'simply protects the legitimate interests of the employer, imposes no undue hardship on the employee and is not injurious to the public.' "¹⁴⁰

In the court's opinion, the appropriateness of applying the *Solari/Whitmyer* reasonableness test to the "question of the enforceability of holdover agreements" is supported by decisions of courts in other jurisdictions.¹⁴¹ To corroborate that position, Justice Garibaldi referred to numerous federal court decisions which specifically addressed the question.¹⁴² According to the justice, all of the cases recognized that "the question of the enforceability of holdover covenants clearly presents the interest of the employee in enjoying the benefits of his or her own creation, on the one hand, and the interest of the employer in protecting

impacts on the public." *Id.* at 627, 542 A.2d at 887 (citing *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447, 193 Ct. Cl. 187 (1970); *GTI Corp. v. Calhoon*, 309 F. Supp. 762 (S.D. Ohio 1969); *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952); Note, *Patent Ownership: An Employer's Rights to His Employee's Invention*, 58 NOTRE DAME L. REV. 863, 879 (1983)).

¹³⁴ *Id.*

¹³⁵ See *id.* at 627-30, 542 A.2d at 888-89.

¹³⁶ *Id.* at 634, 542 A.2d at 892.

¹³⁷ See *id.* at 628, 542 A.2d at 888 (citing *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 32-33, 274 A.2d 577, 581 (1971)).

¹³⁸ 55 N.J. 571, 264 A.2d 53 (1970). For a discussion of the *Solari* decision, see *supra* text accompanying notes 90-97.

¹³⁹ 58 N.J. 25, 274 A.2d 577 (1971). For a discussion of the *Whitmyer* decision, see *supra* text accompanying notes 98-116.

¹⁴⁰ *Ingersoll-Rand*, 110 N.J. at 628, 542 A.2d at 888 (quoting *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 32-33, 274 A.2d 577, 581 (1971)).

¹⁴¹ See *id.* at 630, 542 A.2d at 889.

¹⁴² See *id.* at 630-34, 542 A.2d at 890-92. Particularly, the court referred to: *Dorr-Oliver, Inc. v. United States*, 432 F.2d 447 (Ct. Cl. 1970); *New Britain Machine Co. v. Yeo*, 358 F.2d 397 (6th Cir. 1966); *Armormite Lens Co. v. Campbell*, 340 F. Supp. 273 (S.D. Cal. 1972); *GTI Corp. v. Calhoon*, 309 F. Supp. 762 (S.D. Ohio 1969); *Universal Winding Co. v. Clarke*, 108 F. Supp. 329 (D. Conn. 1952).

confidential information, trade secrets, and, more generally, its time and expenditures in training and imparting skills and knowledge to its paid work force, on the other.”¹⁴³ Accordingly, the court concluded that it would enforce holdover agreements to the extent that they give employers “‘that limited measure of relief within the terms of the [holdover] agreement which would be reasonably necessary to protect his legitimate interests, would cause no undue hardship on the employee, and would not impair the public interest.’”¹⁴⁴

Justice Garibaldi explained that in applying this three-pronged “reasonableness” test, the reviewing court must balance the employer’s need for protection of his “legitimate interests” and “the hardship on the employee.”¹⁴⁵ The justice noted, however, that the degree of the employer’s interest may alone be determinative of the enforceability of a restrictive agreement.¹⁴⁶

The court then proceeded to delimit the legitimate interests of employers.¹⁴⁷ Initially, the court reiterated the established principle that an employee may utilize the knowledge and skill acquired during his or her employment without restriction.¹⁴⁸ Moreover, an employee may use such skills to compete with a former employer.¹⁴⁹ Thus, the court concluded that an employer has no legitimate interest in preventing competition with its former employee.¹⁵⁰

The supreme court noted that an employer’s legitimate protectible interests have generally been limited to trade secrets, confidential information and customer relations.¹⁵¹ Justice Gari-

¹⁴³ *Ingersoll-Rand*, 110 N.J. at 633-34, 542 A.2d at 892.

¹⁴⁴ *Id.* at 634, 542 A.2d at 892 (quoting *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 35, 274 A.2d 577, 583 (1971); *Solari Indus. v. Malady*, 55 N.J. 571, 585, 264 A.2d 53, 61 (1970)).

¹⁴⁵ *Id.* at 634-35, 542 A.2d at 892.

¹⁴⁶ *See id.* at 635, 542 A.2d at 892. Specifically, Justice Garibaldi reasoned that: [i]n cases where the employer’s interests are strong, such as cases involving trade secrets or confidential information, a court will enforce a restrictive agreement. Conversely, in cases where the employer’s interests do not rise to the level of a proprietary interest deserving of judicial protection, a court will conclude that a restrictive agreement merely stifles competition and therefore is unenforceable.

Id. at 635, 542 A.2d at 892 (citations omitted).

¹⁴⁷ *See id.* at 635-39, 542 A.2d at 892-94.

¹⁴⁸ *Id.* at 635, 542 A.2d at 892 (citing *von Kalinowski, Key Employees and Trade Secrets*, 47 VA. L. REV. 583, 586 (1961)).

¹⁴⁹ *Id.*

¹⁵⁰ *See id.*

¹⁵¹ *Id.* at 636, 542 A.2d at 893 (citing *Whitmyer Bros. v. Doyle*, 58 N.J. 25, 274 A.2d 577 (1971); *Solari Indus. v. Malady*, 55 N.J. 571, 264 A.2d 53 (1970)).

baldi explained that the courts have imposed this limitation on employers' legitimate interests because of "the broad definition of trade secret and other confidential information."¹⁵² In addressing the argument advanced by Ingersoll-Rand against imposing such a limitation, the supreme court acknowledged that "[t]oday, large corporations maintain at great expense modern research and development programs."¹⁵³ Additionally, the court pointed out that members of such research programs are encouraged to openly discuss with each other their new ideas in a unified creative effort.¹⁵⁴

The court accepted Ingersoll-Rand's contention that an employer may have a legitimate protectible interest in the information generated from this creative exchange, although it does not rise to the level of "a trade secret or proprietary information."¹⁵⁵ Although stating that this interest should be construed narrowly, the court declined to delineate any specific guidelines to determine the existence of such an interest.¹⁵⁶ The supreme court conceded that its recognition of this information as a protectible interest would further confuse the distinction between an employer's legitimate interests and an employee's general skills and knowledge acquired during employment.¹⁵⁷ The court, however, reaffirmed its belief that today's employers have an interest in protecting against the use or disclosure by a former employee of information learned through a confidential position.¹⁵⁸

Next, the supreme court discussed the second prong of the *Solari/Whitmyer* test, restating that the evaluation of the reasonableness of a holdover agreement requires the court to "balance the employer's need for protection and the [resulting] hardship

¹⁵² *Id.*

¹⁵³ *Id.* at 637, 542 A.2d at 893.

¹⁵⁴ *Id.*, 542 A.2d at 894. The supreme court referred to these programs as "think tanks." *Id.* In its petition for certification, Ingersoll-Rand contended that it maintained such a creative environment and that Ciavatta's invention was attributable to his exposure to the program. See Petition for Certification of Plaintiff-Petitioner Ingersoll-Rand at 8-11, *Ingersoll-Rand Co. v. Ciavatta*, 110 N.J. 609, 542 A.2d 879 (1988) (A-3955-85T8).

¹⁵⁵ *Ingersoll-Rand*, 110 N.J. at 638, 542 A.2d at 894. In so doing, the supreme court expanded the definition of "legitimate interest." The court characterized this nonproprietary information as "highly specialized, current information not generally known in the industry, created and stimulated by the research environment furnished by the employer, to which the employee has been 'exposed' and 'enriched' solely due to his employment." *Id.*

¹⁵⁶ See *id.*

¹⁵⁷ See *id.*

¹⁵⁸ *Id.* at 638-39, 542 A.2d at 894 (citing Stedman, *Rights and Responsibilities of the Employed Inventor*, 45 IND. L.J. 254, 259 (1970)).

on the employee.”¹⁵⁹ Holdover agreements, noted the court, restrict an employee’s employment opportunities and impede one’s opportunity to obtain subsequent work.¹⁶⁰ The court postulated that in some cases, the inclusion of a restrictive agreement in an employment contract may be part of the bargained-for-exchange, while in others, it may be the consequence of unequal bargaining power.¹⁶¹ Accordingly, the court concluded that the reasonableness of holdover agreements must be determined on the particular facts of each case.¹⁶²

Justice Garibaldi next addressed the public interests implicated by the third part of the *Solari/Whitmyer* test.¹⁶³ The justice restated that the public has an interest in “safeguarding fair commercial practices and in protecting employers from theft or piracy” of proprietary information.¹⁶⁴ This interest must be considered in conjunction with the public interest in encouraging an inventor’s creativity and in promoting technological advancement.¹⁶⁵

In applying the *Solari/Whitmyer* test to the holdover clause in question, the court unanimously held that the agreement was unreasonable and therefore not enforceable.¹⁶⁶ In so holding, the court found that Ingersoll-Rand did not possess a legitimate protectible interest in the information which Ciavatta used in conceiving and developing his invention.¹⁶⁷ The court noted that Ciavatta was hired neither to invent nor conduct research with regard to Ingersoll-Rand’s split-set friction stabilizer.¹⁶⁸ Moreover, the court emphasized that the technology underlying the

¹⁵⁹ *Id.* at 639, 542 A.2d at 894.

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ *See id.* at 639-40, 542 A.2d at 894-95.

¹⁶⁴ *Id.* at 639, 542 A.2d at 894.

¹⁶⁵ *See id.* at 638-39, 542 A.2d at 894-95. The court noted that there is currently a debate in the scientific community regarding the effect of secrecy on long term technological progress. *Id.* at 639-40, 542 A.2d at 895 (citing Broad, *As Science Moves Into Commerce, Openness Is Lost*, N.Y. Times, May 24, 1988, at C1, col.5).

¹⁶⁶ *See id.* at 640-43, 542 A.2d at 895-96. Initially, the supreme court stated that the holdover agreement did not apply to Ciavatta’s invention. *Id.* at 640, 542 A.2d at 895. The court found that “Ingersoll-Rand ha[d] not established that Ciavatta ‘conceived’ of his invention as a result of his employment at Ingersoll-Rand.” *Id.* However, the court did not set forth its reasoning for this particular finding. Rather, the supreme court proceeded to explain that even if the agreement did apply to Ciavatta’s invention, the agreement was unenforceable. *See id.* at 640-43, 542 A.2d at 895-96.

¹⁶⁷ *See id.* at 641-42, 542 A.2d at 895-96.

¹⁶⁸ *Id.* at 641, 542 A.2d at 895.

split-set was more than fifty years old and that its specifications and capabilities were widely known throughout the industry.¹⁶⁹ The court found that Ciavatta's invention was the product of his own general skills and knowledge and not the result of any current research program in which Ciavatta participated.¹⁷⁰ Thus, the court reasoned that although Ciavatta had "employed certain skills and knowledge he undoubtedly gained during his employment," the information was not proprietary and consequently, not protectible.¹⁷¹ The court posited that requiring Ciavatta to assign his invention to Ingersoll-Rand "would work an undue hardship" on the former employee, and therefore, concluded that the holdover agreement was not enforceable.¹⁷²

The restrictive effect of holdover agreements supports the *Ingersoll-Rand* court's decision to apply the *Solari/Whitmyer* test when determining the enforceability of such agreements. As the supreme court correctly recognized, holdover agreements clearly circumscribe an employee's ability to obtain employment during their operative period.¹⁷³ That is, a prospective employer is not likely to hire one whom he knows is obligated to assign to his or her former employer any invention that the employee conceives which is "attributable to work done during former employment."¹⁷⁴ Although a holdover agreement "indirectly" restrains an employee from obtaining alternative employment, as opposed to the "direct" restraint imposed by a noncompetition covenant, it does not warrant different treatment.¹⁷⁵

¹⁶⁹ *Id.* at 641-42, 542 A.2d at 895-96. The court emphasized the fact that the friction stabilizer manufactured by Ingersoll Rand's leading competitor was identical in design to Ingersoll-Rand's split-set. *Id.* at 641, 542 A.2d at 895.

¹⁷⁰ *Id.* at 642, 542 A.2d at 896.

¹⁷¹ *See id.*

¹⁷² *Id.* at 643, 542 A.2d at 896.

¹⁷³ *Id.* at 639, 542 A.2d at 894. *See also* *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 137 (9th Cir. 1965) (holdover clauses "limit the employee's employment opportunities" and "interfere with the employee's movement to the job in which he may most effectively use his skills."); *Universal Winding Co. v. Clarke*, 108 F. Supp. 329, 332 (D. Conn. 1952) ("[N]o competitor of the plaintiff in the field of winding machines would want to employ a designer who for the first year was under obligation to disclose the fruit of his labor to the plaintiff and in effect give the plaintiff a first option on any patentable rights.").

¹⁷⁴ *Ingersoll-Rand Co.*, 216 N.J. Super. at 672, 524 A.2d at 869. The appellate court postulated that the effect of the holdover agreement in this case was to prevent Ciavatta from being employed to work in mine supports for one year. *Id.* at 676-77, 524 A.2d at 871.

¹⁷⁵ In ruling that the *Solari/Whitmyer* test was inapplicable to holdover agreements, the trial court relied on the direct/indirect distinction. *See Ingersoll-Rand*, 210 N.J. Super. at 351-52, 509 A.2d at 825. The court found that under certain circumstances, a holdover clause "may exert a substantial indirect restraint against

Similar to a noncompetition agreement, a holdover agreement deprives the individual of the right to use the general skills and knowledge acquired during employment.¹⁷⁶ The employee's right to capitalize on such skills and knowledge, however, has long been recognized by our courts.¹⁷⁷ By impeding that right, a holdover agreement inhibits an individual from maximizing the benefit of his or her personal skills.¹⁷⁸ The net result is to discourage an inventor's creativity and to dampen potential competition.¹⁷⁹ Thus, holdover agreements implicate the same policy concerns as noncompetition agreements and their enforceability should be limited to inventions derived from information in which the employer has a "legitimate" interest.¹⁸⁰

Despite the supreme court's holding that the *Solari/Whitmyer* reasonableness test will be used to assess the enforceability of holdover agreements, the opinion creates several questions which remain unresolved. Unlike the court's past decisions, the *Ingersoll-Rand* opinion did not limit the employer's protectible interests to trade secrets and confidential information.¹⁸¹ Although the supreme court stated that this newly recognized interest should be narrowly construed, it is not clear to what extent this interest will warrant judicial protection. However, that court will probably require the employer to show that the employee utilized current information created by its research environment, and not merely that the employee was assigned or exposed to such an environment.¹⁸²

employment by others . . . e.g., where an employee was involved in research and product development with an extensive employment history in a particular limited field." *Id.* This distinction, however, is inapposite. The impact of either type of agreement will of course be less on the employee who has a diversified employment history. Nevertheless, both post-employment restrictions effectively preclude an employee from working in the field in which he was last employed.

¹⁷⁶ See *Ingersoll-Rand*, 216 N.J. Super. at 676-77, 524 A.2d at 871. See also *Ingersoll-Rand*, 210 N.J. Super. at 355, 509 A.2d at 830 (A holdover agreement imposes a "one-year hiatus before the employee may utilize the expertise gleaned from his prior employment.").

¹⁷⁷ See *supra* notes 147-49 and accompanying text.

¹⁷⁸ *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 773 (S.D. Ohio 1969).

¹⁷⁹ *Ingersoll-Rand*, 216 N.J. Super. at 672, 524 A.2d at 869.

¹⁸⁰ The trial court's decision to enforce the holdover clause was based in large part upon the fact that Ciavatta's ability to invent the elliptical friction stabilizer resulted solely from his experience with *Ingersoll-Rand*. See *supra* note 35 (factors (a)-(d)). Enforcing a holdover agreement on this basis alone clearly contravenes the principle that an employee may use the general knowledge and experience acquired during his employment.

¹⁸¹ See *supra* notes 153-58 and accompanying text.

¹⁸² This is evidenced by the supreme court's decision in light of the trial judge's finding that Ciavatta was involved in a research capacity from October 1974 to

Most confusing about the court's extension of protectible information to include "highly specialized, current information . . . created and stimulated by the research environment"¹⁸³ is whether the court believed such information to be "proprietary." The court initially announced that an employer has an interest in the "current information" generated in its think tank environment, although it "is not a trade secret or proprietary."¹⁸⁴ At the conclusion of the opinion, however, the unanimous court espoused that this information was in fact "proprietary."¹⁸⁵ The latter characterization is more congruous with the idea that an employee may use the knowledge acquired during employment except when that knowledge is of information in which his or her employer has an ownership interest.¹⁸⁶

Whether the information is termed "proprietary," the creation of a new category of interest will only further blur the already fuzzy line between "general" and "protectible" information. Moreover, the extension was unnecessary. If such "specialized, current information not generally known in the industry" is generated in the employer's research environment, it seems clear that it could be properly termed "confidential."

Perhaps the most interesting aspect of the decision is where the court finds that the holdover provision in Ciavatta's employment contract inapplicable to his invention.¹⁸⁷ This definitive

March 1978, and "although he was not formally involved in or assigned to research or development relevant to the friction stabilizer," Ciavatta was exposed "to creative processes within [Ingersoll-Rand's] organization relevant to the invention." *Ingersoll-Rand*, 210 N.J. Super. at 343, 354, 509 A.2d at 823.

As the appellate court aptly stated:

We recognize that there is a legitimate interest of the employer to foster the free exchange of ideas by its employees But the employer must show that the information absorbed by the former employee was, in fact, proprietary, and, therefore, subject to the broad protection afforded trade secrets and other confidential information. Beyond this trade secret, confidential communication, and Patent Act protection, however, the employer's interests must give way to an employee's right to leave his job and use elsewhere those skills and that knowledge of the trade or industry he has acquired during his employment.

Ingersoll-Rand, 216 N.J. Super. 667, 677-78, 524 A.2d at 872 (citations omitted).

¹⁸³ *Ingersoll-Rand*, 110 N.J. at 638, 542 A.2d at 894.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.* at 643, 542 A.2d at 896.

¹⁸⁶ In general, the term proprietary means "[b]elonging to ownership; . . . relating to a certain owner or proprietor." Black's Law Dictionary 1097 (5th ed. 1979).

¹⁸⁷ *Ingersoll-Rand*, 110 N.J. at 640, 542 A.2d at 895. The supreme court did not explain the rationale behind this finding. Rather, the court merely asserted that *Ingersoll-Rand* failed to establish "that Ciavatta had 'conceived' of his invention as a result of his employment at *Ingersoll-Rand*." *Id.*

statement is interesting considering the trial court's specific determination that the holdover provision contained in Ciavatta's employment agreement was applicable to Ciavatta's invention.¹⁸⁸ In declaring that Ciavatta's invention was not "'conceived' . . . as a result of his employment with Ingersoll-Rand,"¹⁸⁹ the supreme court was apparently expressing its opinion that courts should narrowly interpret such phrases in holdover clauses. However, in not explaining the reasoning behind its conclusion, the supreme court left open the question of what it means to be "conceived as a result of." The difficulty arises because the trial court's interpretation seems the most logical.¹⁹⁰ The absence of any rationale supporting this aspect of the court's determination will undoubtedly lead to confusion in subsequent cases involving similar provisions.

Overall, the *Ingersoll-Rand* decision is a repudiation of the idea that employment contracts should be enforced to the letter where it would work an injustice on the employee.¹⁹¹ Implicit in the court's holding is the recognition that employment contracts containing holdover provisions and noncompetition agreements are often contracts of adhesion. The technical employee, as a consequence of inferior bargaining position, contracts away the right to use the knowledge and skill he or she acquires for the promise of terminable-at-will employment.¹⁹² By requiring the employer to have a "legitimate" interest in the information used by the former employee in his or her invention before enforcing a holdover agreement, the court alleviates to some degree the disparity in the bargaining power between employer and employee.

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¹⁸⁸ *Ingersoll-Rand Co. v. Ciavatta*, 210 N.J. Super. at 345, 509 A.2d at 824-25. Specifically, the trial court found that "Ciavatta conceived his invention as a result of work done during his employment and that it is attributable to that work." *Id.* The trial court emphasized the facts that Ciavatta had no prior experience in the mining industry before his employment with Ingersoll-Rand and that because of his assignments in this field during his employment, Ciavatta conducted substantial library research which sparked his creative juices. *Id.* at 345-46, 509 A.2d at 825.

¹⁸⁹ *Ingersoll-Rand*, 110 N.J. at 640, 542 A.2d at 895.

¹⁹⁰ Perhaps the court believed that Ciavatta "conceived" of his friction stabilizer solely as a result of "his having transferred a light fixture in his home." See *supra* note 25.

¹⁹¹ O'Hern, *supra* note 9.

¹⁹² See *Ingersoll-Rand*, 110 N.J. at 639, 542 A.2d at 894.