



Noncompetition Agreements Are Enforceable If...

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Noncompetition agreements typically prohibit an employee or seller of a business to own or work for a competitor of the protected party, and often are of substantial value. However, Michigan courts will only enforce these agreements if they comply with the following four requirements.

1) THE AGREEMENT PROTECTS ONLY "REASONABLE COMPETITIVE BUSINESS INTERESTS."

"Reasonable competitive business interests" include the protection of trade secrets, confidential information, and relationships with customers and suppliers. A noncompetition agreement may not be used to prohibit a person's ability to use general knowledge or skills.

2) THE AGREEMENT IS OF REASONABLE DURATION.

There is no litmus test for whether the agreement is reasonable in duration, since the reasonableness of the duration depends upon the business interests being protected. Durations of one or two years are generally found to be reasonable, although longer periods have been upheld in connection with the sale of a business.

3) THE AGREEMENT IS REASONABLE IN GEOGRAPHIC SCOPE.

The agreement's geographic scope should generally be limited to the area in which the protected party does business or will do business, including the area from which the business's clients are drawn. A good test is to consider whether competition at each restricted location could reasonably have an adverse impact on the protected party.

4) THE AGREEMENT IS REASONABLE IN THE TYPE OF ACTIVITY RESTRAINED.

The restriction should be broad enough to protect only the protected party's legitimate business interests, such as by only prohibiting the restricted party from competing in the protected party's field, and should not unduly impair the restricted party's ability to earn a living in

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In light of the above, it is important that noncompetition agreements be reasonable and carefully drafted to ensure that the agreement is enforceable.

Please contact Nick Oertel at 517-371-8139 or Joel Farrar at 517-371-8305 if you have questions or require assistance in connection with noncompetition agreements.