SUPREME COURT OF ILLINOIS

Reliable Fire Equipment Company v. Arnold Arredondo et al.

Reliable Fire Equipment Co. v. Arredondo, 2011 IL 111871 (Ill. 2011) · No. 111871 · Decided December 1, 2011

SUMMARY

The Illinois Supreme Court addresses the enforceability of employee noncompetition restrictive covenants. It holds that reasonableness is determined under a three-prong totality-of-the-circumstances test, including whether the restraint is no greater than necessary to protect the employer's legitimate business interest, whether it imposes undue hardship on the employee, and whether it injures the public. The court overrules contrary appellate decisions, reverses the lower-court judgments, and remands for further proceedings.

CASE DETAILS

COURT	Supreme Court of Illinois
WRITING FOR THE COURT	Justice Freeman; Chief Justice Kilbride; Justice Thomas; Justice Garman; Justice Karmeier; Justice Burke; Justice Theis
JURISDICTION	Illinois
DECIDED	December 1, 2011
DOCKET	111871
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Reliable appealed from a circuit court judgment declaring employee noncompetition covenants unenforceable. The Illinois Appellate Court for the Second District affirmed, and the Illinois Supreme Court allowed Reliable's petition for leave to appeal.
STANDARD OF REVIEW	De novo review applies where the issue is whether the circuit court applied the correct legal test to the evidence. The court did not apply the manifest-weight standard because the appeal concerned the legal standard used, not the sufficiency of the evidence.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	Reliable Fire Equipment Company v. Arnold Arredondo, Rene Garcia, High Rise Security Systems, LLC

TOPICS

noncompete agreements | restrictive covenants | employment contracts | contract interpretation | commercial litigation

PRACTICE AREAS

employment law | contracts | commercial litigation

QUESTIONS PRESENTED

1. Whether the enforceability of the postemployment restrictive covenants was reviewed de novo because the circuit court applied an allegedly incorrect legal test.
2. Whether Illinois continues to require consideration of the employer's legitimate business interest as part of the three-prong rule of reason governing employee noncompetition covenants.
3. Whether the legitimate business interest inquiry is governed by rigid, conclusive factors such as the two-factor test articulated in Nationwide Advertising Service, Inc. v. Kolar, or by the totality of the circumstances.
4. Whether reversal and remand were required because the case was tried under an incorrect legal theory.

HOLDINGS

1. When the appeal concerns whether the circuit court applied the correct legal test to the evidence, the issue is one of law reviewed de novo rather than under the manifest-weight standard.
2. An employee restrictive covenant, assuming it is ancillary to a valid employment relationship, is reasonable only if it is no greater than necessary to protect a legitimate business interest of the employer, does not impose undue hardship on the employee, and is not injurious to the public.
3. Whether an employer has a legitimate business interest supporting a restrictive covenant must be determined from the totality of the facts and circumstances of the individual case; relevant factors are nonconclusive, none has predetermined weight, and the listed factors are not exclusive.
4. The two-factor test created in Kolar, under which a near-permanent customer relationship and employee acquisition of confidential information were determinative of a legitimate business interest, is no longer valid.
5. When a case is tried under an incorrect legal theory, the appropriate remedy is to reverse and remand for further proceedings, including an opportunity to supplement the existing record with evidence and argument addressing the totality of the circumstances.

KEY QUOTATIONS

> *"A restrictive covenant, assuming it is ancillary to a valid employment relationship, is reasonable only if the covenant: (1) is no greater than is required for the protection of a legitimate business interest of the employer-promisee; (2) does not impose undue hardship on the employee-promisor, and (3) is not injurious to the public."* (¶ 17)

> *"Each case must be determined on its own particular facts. [Citations.] Reasonableness is gauged not just by some but by all of the circumstances. [Citations.] The same identical contract and restraint may be reasonable and valid under one set of circumstances, and unreasonable and invalid under another set of circumstances."* (¶ 42)

> *"Factors to be considered in this analysis include, but are not limited to, the near-permanence of customer relationships, the employee's acquisition of confidential information through his employment, and time and place restrictions. No factor carries any more weight than any other, but rather its importance will depend on the specific facts and circumstances of the individual case."* (¶ 43)

FACTUAL BACKGROUND

Reliable sold, installed, and serviced fire extinguishing, fire suppression, and fire alarm systems in the Chicago metropolitan area and neighboring regions. Arredondo and Garcia were employees who signed agreements barring competition with Reliable during employment and for one year after termination in Illinois, Indiana, and Wisconsin, and also restricting customer, referral-source, and employee solicitation. Arredondo later resigned, Garcia was fired on suspicion of competition, and both became involved in High Rise, a competing fire-alarm business.

PROCEDURAL HISTORY

Reliable sued former employees Arnold Arredondo and Rene Garcia and High Rise Security Systems for, among other claims, breach of noncompetition covenants. After a bench trial on the declaratory judgment issue, the Du Page County circuit court held the covenants unenforceable because Reliable failed to prove a legitimate business interest. The appellate court affirmed. The Illinois Supreme Court reversed both judgments and remanded for further proceedings under the proper legal standard.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

The circuit court must reconsider the enforceability of the restrictive covenants under the three-prong rule of reason and determine the employer's legitimate business interest from the totality of the facts and circumstances. The court need not conduct an entirely new evidentiary hearing but may permit the parties to supplement the existing record with additional evidence and argument.

CASES CITED

- Mohanty v. St. John Heart Clinic, S.C., 225 Ill. 2d 52, 63, 76-77 (2006)
- Hursen v. Gavin, 162 Ill. 377, 379-82 (1896)
- Storer v. Brock, 351 Ill. 643, 647 (1933)
- Tarr v. Stearman, 264 Ill. 110, 118-19 (1914)
- Lanzit v. J.W. Sefton Manufacturing Co., 184 Ill. 326, 330 (1900)

- Eychaner v. Gross, 202 Ill. 2d 228, 251 (2002)
- Kalata v. Anheuser-Busch Cos., 144 Ill. 2d 425, 433 (1991)
- Schulenburg v. Signatrol, Inc., 37 Ill. 2d 352, 356 (1967)
- In re A.H., 207 Ill. 2d 590, 593 (2003)
- Linn v. Sigsbee, 67 Ill. 75 (1873)
- Bauer v. Sawyer, 8 Ill. 2d 351, 355-57 (1956)
- House of Vision, Inc. v. Hiyane, 37 Ill. 2d 32, 37-39 (1967)
- Cockerill v. Wilson, 51 Ill. 2d 179, 183-84 (1972)
- Sunbelt Rentals, Inc. v. Ehlers, 394 Ill. App. 3d 421, 430-31 (2009)
- Steam Sales Corp. v. Summers, 405 Ill. App. 3d 442, 457 (2010)
- Nationwide Advertising Service, Inc. v. Kolar, 28 Ill. App. 3d 671, 673 (1975)
- Sparling v. Peabody Coal Co., 59 Ill. 2d 491, 496 (1974)
- Rollins Burdick Hunter of Wisconsin, Inc. v. Hamilton, 304 N.W.2d 752, 757 (Wis. 1981)
- Consultants & Designers, Inc. v. Butler Service Group, Inc., 720 F.2d 1553, 1557 (11th Cir. 1983)
- Reddy v. Community Health Foundation of Man, 298 S.E.2d 906, 911 (W. Va. 1982)
- Ferrofluidics Corp. v. Advanced Vacuum Components, Inc., 968 F.2d 1463, 1470 (1st Cir. 1992)
- Chambers-Dobson, Inc. v. Squier, 472 N.W.2d 391, 400 (Neb. 1991)
- Arthur Murray Dance Studios of Cleveland, Inc. v. Witter, 105 N.E.2d 685, 692-99 (Ohio C.P. 1952)