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| NATIONAL INSTRUMENT, LLC | * | IN THE |
| Plaintiff | * | CIRCUIT COURT |
| v. | * | FOR |
| JAMES BRAITHWAITE | * | BALTIMORE CITY |
| Defendant | * | Case No.: 24-C-06-004840 |

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# MEMORANDUM OF DECISION

## Procedural Background

On June 6, 2006 National Instrument, LLC ("National Instrument" or "Plaintiff") filed a complaint for a temporary restraining order, preliminary injunction and permanent injunction in an effort to prevent the Defendant, James Braithwaite, from commencing employment at IntelliTECH. On June 15, 2006, this Court, after conducting a hearing, granted Plaintiff's request for a temporary restraining order pending resolution of the case on the merits. Thereafter, in a scheduling conference with this Court, the parties agreed to forgo discovery and live testimony, other than that presented at the hearing for a temporary restraining order, and to limit the resolution of this case to two (2) issues. The first question presented was whether National Instrument could enforce the Non-Competition Agreement ("Covenant") Mr. Braithwaite signed with National Instrument Company, Inc. ("NIC") even though two (2) years have elapsed since NIC merged into National Instrument. The second question presented was whether the Covenant is invalid on its face. Essentially, the parties agree that if National Instrument can enforce the Covenant, Mr. Braithwaite cannot work for IntelliTECH during the timeframe proscribed by the Covenant. Both parties have submitted memorandums of law on these two (2) issues and responses to the other party's memoranda, and this Court conducted a hearing on July 28, 2006. For the reasons set forth in this Court's Analysis below, this Court will issue a permanent injunction preventing Mr. Braithwaite from commencing employment with IntelliTECH.

**Factual Background**

National Instrument, LLC ("National Instrument") is a manufacturer of custom and standard liquid filling systems located in Baltimore, Maryland. June 22, 2006 Affidavit of Robert A. Rosen ("Rosen 6/22/06 Aff."), at ¶ 5. It designs, markets, and sells these systems to customers in a variety of industries, including pharmaceutical, biotech, diagnostic, medical, cosmetic, personal care, food, beverage, household products and chemical specialty industries. Transcript of June 15, 2006 TRO Hearing ("TRO Transcript"), p. 23. It sells its products throughout the United States, Canada and Mexico. Rosen 6/22/06 Aff. at ¶¶ 6-7. The liquid filling system industry is specialized and relatively small. National Instrument competes with only about seventeen other manufacturers situated throughout the U.S. Rosen 6/22/06 Aff. at ¶ 6. IntelliTECH, located in Westminster, Maryland, is one of those competitors.[1] *Id.*; TRO Transcript at 24, 34-36. Specifically, both it and National Instrument design, market and sell the mano bloc machine, a specialized liquid filling machine. TRO Transcript at 24, 34-36.

Prior to operating as National Instrument, LLC, the company operated as National Instrument Company, Inc. ("NIC."). On June 30, 2004 NIC merged into

[1] Mr. Braithwaite does not argue that IntelliTECH is not a direct competitor of National Instrument.

National Instrument, LLC, a company organized solely to take advantage of the benefits afforded by Md. Code, Corps. & Ass'ns, § 4A-301 *et seq.*, with National Instrument becoming the sole surviving entity. TRO Transcript at 72; Articles of Merger; July 14, 2006 Affidavit of Robert A. Rosen ("Rosen 7/14/06 Aff."), at ¶ 5. It was not the merger of two ongoing entities. *Id.* Rather, despite the technical change in formation, nothing changed from an operational standpoint. TRO Transcript at 73. Mr. Rosen remained the CEO and the Rosen family remained the sole shareholders. Rosen 7/14/06 Aff. at ¶8. The only visible difference was that the name of the entity on employee pay checks changed and the name of the entity paying for employee benefits changed ("LLC" instead of "Company, Inc."). Under paragraph 9 of the Articles of Merger NIC transferred to National Instrument all "leases, licenses, property, contracts, rights, privileges and powers of whatever nature and description."

Mr. Braithwaite started off as a machinist with NIC in 1983. TRO Transcript at 81. He worked his way up through the company becoming Director of Manufacturing in 2004. *Id.* In 2005 he was elevated to a member of National Instrument's Executive board. *Id.* at 82. Through these various positions Mr. Braithwaite gained intimate knowledge of National Instrument's proprietary manufacturing systems and future improvements, its quality control systems, performance data, product development, sales forecasts, business strategies and strategic plans, pricing and purchasing strategies, and even developed relationships with National Instrument's customers. May 26, 2006 Affidavit of Robert

A. Rosen ("Rosen 5/26/06 Aff."), at ¶¶ 6-10; TRO Transcript at 25-31. In other words, he had access to significant confidential and proprietary information. *Id.*

Long before his promotions to Director of Engineering and Executive Board member, on September 21, 1992 Mr. Braithwaite executed a "Confidentiality and Non-Competition Agreement" ("Covenant") between himself and NIC. In addition to the confidentiality clauses, Mr. Braeithwaite agreed that "for a period of two (2) years after the date [he ceases] to work for NIC… without NIC's prior written approval… [he would not] directly or indirectly, in North America or Mexico… enter the employment of" a company that "engage[s] in the manufacture, design or marketing for sale or lease" of products that compete with those of NIC. Covenant at ¶ 3. Any amendment to the Covenant was to be in writing. *Id.* at ¶ 8.

In May of 2006, Mr. Braithwaite informed National Instrument that he intended to resign. TRO Transcript at 41. He had three job offers from companies closer to his home and willing to pay him more than National Instrument. *Id.* Plaintiff admits that two (2) of the offers were from companies that did not compete with National Instrument. *Id.* at 44-45. The third offer was from IntelliTECH, who both parties agree is a direct competitor of National Instrument. *Id.* Mr. Braithwaite was informed that should he elect to accept employment with IntelliTECH, National Instrument would enforce the Covenant. Id. at 45. Subsequently, Mr. Braithwaite accepted employment with IntelliTECH, and true to its word, on June 6, 2006 filed the instant Complaint against Mr. Braithwaite asking this Court to issue an injunction prohibiting Mr. Braithwaite from commencing employment with IntelliTECH.

After conducting a hearing, this Court granted Plaintiff's Motion for a Temporary Restraining Order. Now before this Court is Plaintiff's Motion for a Permanent Injunction.

**Analysis**

As discussed previously, the parties have agreed that this Court need only resolve two (2) issues: (1) Whether National Instrument can enforce the Covenant Mr. Braithwaite signed with NIC after NIC merged into National Instrument, and (2) whether the Covenant by its terms is invalid on its face. This Court will address each issue in turn.

**1. National Instrument Can Enforce the Covenant**

Mr. Braithwaite argues that the Covenant is a personal services contract that NIC could not assign to National Instrument without Mr. Braithwaite's consent. This Court will assume, without so holding, that the Covenant constituted a personal services contract. *See, e.g., Reynolds & Reynolds Co. v. Hardee*, 932 F.Supp 149 (E.D. Va. 1996); *Christian Def. Fund v. Stephen Winchell & Assocs.,* 47 Va. Cir. 148 (Va. Cir. Ct. 1998); *Sisco v. Empiregas, Inc. of Bell Mina*, 237 So. 2d. 463 (Ala. 1970); But cf. Premier Laundry, Inc. v. Klein, 73 N.Y.S.2d 60 (N.Y. Sup. 1947) *rev'd on other grounds* 78 N.Y.S.2d 161 (N.Y.A.D. 1948); *Managed Health Care Associates, Inc.*, 209 F.3d 923 (6th Cir. 2000).

"It is hornbook law that [personal service contracts]… which are silent regarding assignments, cannot be assigned without the prior consent of the other contracting party." *Berliner*

*Foods Corp. v. Pillsbury Co.*, 633 F. Supp. 557, 559 (D.Md. 1986); *See also Mehul's Inv. Corp. v. ABC Advisors, Inc.*, 130 F. Supp. 2d 700 (D.Md. 2001); *Baltimore Trust Co. v. Metro. Casualty Ins. Co.*, 3 F. Supp. 404 (D.Md. 1933).

Mr. Braithwaite thus contends that the Covenant he signed with NIC could not have been assigned to National Instrument, and therefore, National Instrument cannot enforce it. However, National Instrument actually acquired the Covenant when NIC merged into it. Section 3-114 of Maryland's Corporations and Associations Article provides that upon a merger "[t]he assets of each corporation… transfer to, vest in, and devolve on the successor without further act or deed." Md. Code, Corps. & Ass'ns., § 3-114 (d)(1). The Code further defines "assets" as "any tangible, intangible, real, or personal property or other assets, including goodwill and franchises." Md. Code, Corps. & Ass'ns., § 1-101(d).

There can be no doubt that Braithwaite's covenant not to compete with NIC was an asset at the time it merged into National Instrument. It prevented a valuable employee from leaving to work for a competitor where the employee could share confidential and proprietary information at the expense of the company (s)he left. A covenant not to compete protects its beneficiary by preventing its competition from simply hiring away key employees to obtain valuable competitive information. Ultimately, this type of agreement can also provide an employee a strong incentive to remain with the company with whom he or she signed the covenant: the employee cannot exploit higher than market competitor offers aimed at obtaining/capitalizing on the information his or her employer has entrusted to that employee.

Courts faced with statutory merger language similar to that of Maryland's whereby the assets of the merged entity are transferred to and vest in the surviving entity without further act or deed, have held that covenants not to compete are business assets that transfer from the merging company to the surviving company by operation of law, not by assignment. *See, e.g. Alexander & Alexander, Inc., Inc., v. Koeltz*, 722 S.W.2d 311, 313-14 (Mo. Ct. App. 1986) (holding that parent company could enforce covenant not to compete signed with subsidiary after subsidiary merged into parent because the covenant was a valuable business asset that transferred to parent without assignment); *UARCO Inc. v. Lam*, 18 F. Supp. 2d 1116, 1122-1123 (D.Hi. 1998) (holding that successor corporation, following a merger may enforce non-compete agreements because they passed "by operation of law."); *Equifax Servs., Inc. v. Hitz*, 905 F.2d 1355, 1361 (10th Cir. 1990) (Under Kansas law, upon merger the surviving corporation "automatically succeeds to the rights of the merged corporations to enforce employees' covenants not to compete."); *Corporate Express Office Products, Inc. v. Phillip*, 847 So.2d 406, 414-415 (Fla. 2003) (holding that "the surviving corporation in a merger assumes the right to enforce a noncompete agreement entered into with an employee of the merged corporation by operation of law, and no assignment is necessary... because in a merger, the two corporations in essence unite into a single corporate existence."); *see also Ward v. City of Cairo*, 583 S.E.2d 821, 824 (Ga. 2003); *Dodier Realty & Inv. Co. v. St. Louis Nat. Baseball Club*, 238 S.W.2d 321, 325 (Mo. 1951).

This principal is particularly acute when the merger is simply a change in corporate structure rather than the merger of two unrelated entities. "A mere change in the form in which business is owned or conducted should not work a prohibited assignment." *Koeltz*, 722 S.W.2d 311 at 313. "[I]f there is no material change in the contract obligations and duties of the employee, there is no reason for the transfer of the rights from one entity or form to another to work an assignment putatively prohibited by the rule against assignment of personal service contracts." *Id.* citing *Sun World Corp. v. Pennysaver, Inc.,* 637 P.2d 1088, 1090-92 (Az. App.1981).

The instant case presents exactly this scenario: the merger of NIC into National Instrument was simply a technical change in corporate structure. NIC merged into the surviving entity National Instrument on June 30, 2004. Consistent with Section 3-114 of the Corporations and Associations Article, the Articles of Merger between the two (2) companies provided that "the Merging Corporation [NIC] merged into the Surviving Entity [National Instrument]; and thereupon [National Instrument] shall possess any and all purposes and powers of [NIC]; and all leases, licenses, property, contracts, rights, privileges, and powers of whatever nature and description of [NIC] shall be transferred to, vested in, and devolved upon the Surviving Entity, without further act or deed…." Articles of Merger at Art. 9. National Instrument was organized solely to take the benefits of an LLC structure. Rosen 7/14/06 Aff. at ¶ 5. Nothing changed from an operational standpoint. TRO Transcript at 73. Mr. Rosen remained the CEO and the Rosen family remained the sole shareholders. Rosen 7/14/06 Aff. at ¶ 8. Therefore, this Court concludes that the mere change in names and corporate structure has not effected an assignment, but, rather, the Covenant transferred to National Instrument by operation of law. Rather, National Instrument obtained the rights to the Covenant by operation of law under with Section 3-114 of the Corporations and Associations Article.

Moreover, even if the Covenant had been assigned from NIC to National Instrument, National Instrument can still enforce it. "The policy against assignability of certain personal service contracts is to prohibit an assignment of a contract in which the obligor undertakes to serve only the original obligee." *Munchak Corp. v. Cunningham*, 457 F.2d 721, 725 -726 (4th Cir.1972) *citing* 3 S. Williston, Contracts, § 412, at 32 (3rd Ed. W. Jaeger 1960) and 4 A. Corbin, Contracts, § 868 at 466 (1951). "[W]hen a person contracts with a corporation, it must be assumed that person contemplated the almost certain likelihood of change in the corporation and its personnel." *Koelz*, 722 S.W.2d at 313 *citing Town of Hampton v. Hampton Beach Improvement Co.,* 218 A.2d 442, 448 (N.H. 1966).

A successor employer may enforce a covenant not to compete between its predecessor and an employee if there has been no change in the employee's duties and obligations as a result of the merger, and/or the employee fails to object to the merger and continues to accept the benefits of employment with the successor. *See Munchak Corp. v. Cunningham*, 457 F.2d at 725 –726; *Hexacomb Corp. v. GTW Enterprises, Inc.*, 875 F. Supp. 457, 465 (N.D. Ill. 1993) ("Because [the employee] continued to accept the same job and responsibilities, he also accepted the same obligations."); *Peters v. Davidson, Inc.*, 359 N.E.2d 556, 562 (Ind. App. 1977) (permitting a successor employer to enforce a restrictive covenant following a merger "where, as here, the employee continues to accept the benefits of his agreement without objection to the merger.")

Here, Mr. Braithwaite's obligations to National Instrument were exactly the same as his obligations to the former entity, NIC. Rosen 7/14/06 Aff. at ¶ 8; TRO Transcript at 108. Mr. Braithwaite has not presented information that, in fact, he did undertake new obligations as a result of the merger. From Mr. Braithwaite's perspective, nothing changed except a slight name change. Yet he continued to work for National Instrument for several years without objection. Indeed, he received additional benefits. During the same year as the merger he was promoted to Director of Engineering. In the next year, he was elevated to a member of National Instrument's Executive Board. But for the covenant not to compete, Mr. Braithewaite may not have received these promotions that exposed him to proprietary and confidential information. He cannot now complain that the Covenant he signed with NIC is unenforceable by National Instrument.[2]

For these reasons, this Court holds that National Instrument may enforce the Covenant between NIC and Mr. Braithwaite.

[2] Mr. Braithewaite also asserts that the clear language of the Agreement only prohibits him from seeking employment with a competitor for two (2) years after his employment with NIC is terminated. Yes, that is exactly what the document says. However, this argument fails for the same reasons just discussed. Mr. Braithwaite continued to accept the benefits of employment from National Instrument without objection, even though when he entered into the Agreement it must be assumed that a change in corporate structure is inevitable. A simple name change should not alleviate Mr. Braithewaite of his obligations. Mr. Braithwaite's argument that the Agreement could not be amended by his subsequent acceptance of employment and benefits from NATIONAL INSTRUMENT fails for precisely the same reasons. His continued acceptance of these benefits essentially waived or works an estoppel upon this argument.

## 2. The Covenant Is Not Overly-Broad or Unreasonable

Mr. Braithwaite also asserts that the Covenant is geographically overbroad, imposes an undue hardship upon Mr. Braithwaite and is unreasonable on its face because it precludes Mr. Braithwaite from working for any employer in North America who competes with National Instrument. This Court does not agree.

A covenant not to compete is to be assessed on a case-by-case basis and will be enforced "so long as [its] terms are reasonable in light of the interests of the employer, the employee, and the general public." *Labor Ready, Inc. v. Abis*, 137 Md. App. 116, 128-29 (2001). Maryland Courts look at three factors in determining a covenant's reasonableness:

> (1) whether restraint is necessary for the protection of the business or goodwill of the employer, (2) whether it imposes upon the employee any greater restraint than is reasonably necessary to secure the employer's business or goodwill, and (3) whether the degree of injury to the public is such loss of the service and skill of the employee as to warrant nonenforcement of the covenant."

*Id.* This Court will address each factor below.

As to the first factor, the restraint is necessary for the protection of National Instrument's business and goodwill. Through his position as Director of Manufacturing and member of the Executive Board, Mr. Braithwaite was exposed to proprietary and confidential information including pricing and purchasing strategies, quality control systems and performance data, sales forecasts and future product development. Exposure of this information to a competitor would almost inevitably injure National Instrument. Competitors could use this information to develop new products to compete with

National Instrument's future products before National Instrument released them to the public. Competitors could adjust their pricing strategies to align with National Instrument's strengths and weaknesses. They can also seek to purchase components at a better price based on what vendors charge National Instrument. They could also use this information to streamline their manufacturing process. In other words, any advantages that National Instrument currently has could be lost if in the hands of one of its competitors. Therefore, a reasonable restraint on Mr. Braithwaite is necessary for the protection of National Instrument's business and goodwill.

As to the second factor, the Covenant does not impose upon Mr. Braithwaite any restraint greater than is reasonably necessary to secure National Instrument's business or goodwill. Mr. Braithwaite objects that the geographical limitation of "North America and Mexico" is overly-broad because it precludes Mr. Braithwaite from working for any liquid filling systems company throughout North America. However, in determining whether the scope of any limitation is reasonable, the Courts focus their inquiry on the relevant market of the employer. *See Hebb v. Stump, Harvey and Cook, Inc.*, 25 Md. App. 478 (1975); *Barre-National, Inc. v. Doshi*, 1988 WL 36335, *4 (D.N.J. 1988) (applying Maryland law to employment contract). If the relevant market is both national and global "a restrictive covenant limited to a narrow geographic area would render the restriction meaningless." *Intelus Corp. v. Barton*, 7 F. Supp 2d 635, 641-42 (D.Md. 1998); *Hekimian Labs, Inc. v. Domain*

*Systems, Inc.*, 664 F. Supp 493 (S.D.Fl. 1987) (applying Maryland law to covenant not to compete and holding likewise).

The manufacturing and marketing of liquid filling systems is a specialized industry. Rosen 6/22/06 Aff. at ¶ 6. There are only 18 companies that specialize in this industry. Id. They are scattered throughout the U.S. Id. The market for National Instrument's product is also national and global in scope. It sells product throughout the U.S., Canada and Mexico. Id. at ¶ 7. In the instant action it would make no sense for the covenant not to compete to specify a smaller geographic region. With a limited number of companies competing in a specialized field, companies in California will inevitably compete with companies, such as National Instrument, in Maryland. Because of the specialized nature of the industry and the limited number of competitors for the sales throughout North America, this Court concludes that the relevant market is North American. It further concludes that should Mr. Braithwaite commence employment with any of these competitors, especially IntelliTECH who is located nearby in Westminster, Maryland, the information he could reveal could work a significant disadvantage on National Instrument.

In addition, the Covenant only prohibits Mr. Braithwaite from commencing employment with one of these competitors for two (2) years. The purpose of the covenant not to compete is to prevent confidential and propriety information that could work a significant disadvantage to National Instrument from reaching the hands of its competitors. A two year restriction is more than reasonable for it acknowledges that after a certain period of time the information with which Mr. Braithwaite could depart, will become stale and significantly less disadvantageous to National Instrument.

Moreover, the burden the Covenant places upon Mr. Braithwaite is small compared to the benefit it bestows upon National Instrument. The restrictive covenant only prevents Mr. Braithwaite from accepting employment with a competitor for a period of two (2) years. During those two (2) years Mr. Braithwaite is not prohibited from applying the more generalized skills he acquired while employed by National Instrument and NIC in a similar or related industry, just not in National Instrument's specific market niche. Not only is he a machinist, but he has had experience in management, purchasing, production, manufacturing and even marketing through the various positions he held with NIC and National Instrument. Indeed, he received offers from two (2) other companies other than IntelliTECH, both of which were closer to his home and offered him an increased salary over that he received at National Instrument. After, two (2) years, if Mr. Braithwaite desires, he can return to the liquid filling systems industry when the confidential and proprietary information he obtained, and the Covenant was designed to protect, becomes stale.

Finally, as to the third factor, the burden placed on society as a whole is minimal. The Covenant only prohibits Mr. Braithwaite from working for a competitor of National Instrument in the liquid filling systems industry for a period of two (2) years. He is not prohibited from employing his manufacturing and operational talents in a similar or related industry. Thus, even for those two (2) years, the public will not endure any loss from his services.

Accordingly, this Court holds that the Covenant is not overly-broad or unreasonable and that National Instrument can enforce that Covenant.

An Order reflecting this opinion is attached.

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| ________________ | ________________________ |
| Date | Judge Kaye A. Allison<br>Circuit Court for Baltimore City |

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| NATIONAL INSTRUMENT, LLC | * | IN THE |
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| Defendant | * | Case No.: 24-C-06-004840 |

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**ORDER**

Upon consideration of Plaintiff's Motion for Permanent Injunction, its Memorandum of Law in Support of Permanent Injunction, Defendant's Memorandum of Law in Oppostion thereto, and both parties' reply memoranda, and after conducting a hearing, it is this _____ day of August, 2006 , by the Circuit Court for Baltimore City hereby

**ORDERED** that Plaintiff's Motion for a Permanent Injunction is hereby **GRANTED** for the reasons set forth in the accompanying Memorandum of Decision.

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Kaye A. Allison
Judge