

*2002 ABA REGIONAL INSTITUTE
LABOR AND EMPLOYMENT LAW: THE BASICS*

*TRADE SECRETS, COVENANTS NOT TO COMPETE
AND NON-SOLICITATION AGREEMENTS: BASICS*

The Protection of Trade Secrets, Confidential Information and Goodwill: Drafting Enforceable Confidentiality, Non-Compete and Non-Solicitation Agreements: 10 Tricks and Traps

David J. Carr, Esq
Partner, Ice Miller
One American Square
Box 82001
Indianapolis, IN 46282
(317) 236-5840
email: carr@icemiller.com

David J. Carr is a Partner in the Labor and Employment Law section of Ice Miller. Ice Miller currently maintains offices in Indianapolis, Chicago, and Washington, D.C. Mr. Carr focuses his practice in the areas of personnel policies, employment discrimination, sports law, and employment contracts involving trade secrets, confidential information and covenants against competition. Mr. Carr is a veteran labor negotiator and has handled numerous labor arbitrations, union avoidance and other collective bargaining matters. He also has substantial experience representing employers in wrongful discharge lawsuits and employment discrimination investigations, including sexual harassment situations.

Mr. Carr is a contributing author to the ABA treatises *Covenants Not to Compete: A State by State Survey* (BNA 1991), *The Employee Duty of Loyalty: A State by State Survey* (BNA 1995), *Employment Trade Secrets Law: A State by State Survey* (BNA 1997), and *Harvey's Indiana Practice and Procedure* (West 1988).

Mr. Carr is admitted to practice in Indiana, Wisconsin, the Seventh Circuit Court of Appeals and the United States Supreme Court. He has successfully taken cases to trial in Indiana, Ohio, Kentucky, Michigan, Wisconsin and Georgia. He is a member of the American, Indiana and Indianapolis Bar Associations, and serves on the Individual Rights and Responsibilities Subcommittee of the ABA Labor Section. He is a past Chair of the Indianapolis Bar Association Labor Law Section. He is also a member of the Christian Legal Society, the Federalist Society and is a Diplomate of the Court Practice Institute.

An active member of the community, Mr. Carr served as a member of the Zionsville Parks and Recreations Board from 1996 to 1998, and currently serves as a member of the Zionsville Town Council.

Mr. Carr received his Bachelor of Arts from DePauw University, graduating summa cum laude and Phi Kappa Beta in 1981. He then earned his Juris Doctorate from Georgetown University Law Center in 1984. He also received the Res Gestae Award for Outstanding Legal Article of the Year for his paper on wrongful termination in Indiana in 1988.

Introduction

It exists as a realm of time and space, restrictions and caveats, prohibitions and exceptions, tricks and traps. The Twilight Zone? No. The Non-Compete Zone.

Industrial espionage and violation of non-competes happens every day in the United States; often, it happens at the same time. What prevents your clients from being victimized? What prevents you from committing malpractice when you draft a non-compete agreement?

Based on my 18 years of practice in this area, I now provide you with my thoughts on how to avoid at least 10 of the most common mistakes in this area of legal document drafting. Hopefully, this aids you in drafting the most bullet-proof, non-compete/non-solicitation/trade secret-protecting documents possible, in this ever shifting area of practice.

Ten Drafting Mistakes to Avoid

Mistake #10: "You Mean My Employment Contracts Actually Have to Look Like I Have Trade Secrets?"

In the recent case of *Rogerscasey, Inc. v. Nankoff*, S.D.N.Y., No. 02 Civ. 2599 (April 23, 2002), two former employees of a pension fund investment consulting firm who started a competing firm were ordered by a court to not disparage their former employer, misappropriate its confidential information, or solicit its remaining employees. However, the employees were permitted to solicit their former employer's clients. Why? The judge found that the former employees' knowledge of clients' investment philosophies and strategies did not constitute a trade secret. Solution: Wrap your key customers and their information in: (1) trade secret status; (2) contractual proprietary status (fallback position); (3) non-solicitation status. You want to make as many claims as possible to protect your information. Perhaps you will not win on the non-compete claims, but you may get the same relief under your state's variation of the Uniform Trade Secrets Act.

- **Mistake #9: Bigger is Better**

- * **Overbroad covenants often get thrown out**
- * **Restrictions Must Be Reasonable**

- Time
- Space
- Customers
- Beware what you say

Covenants not to compete are enforceable in most states if there is a protectable interest and if the restraint is reasonable in light of legitimate interests sought to be protected. In many states, overbroad restrictions will cause the entire non-compete to be rendered unenforceable. *Licocci v. Cardinal Assocs., Inc.*, 445 N.E.2d 556 (Ind. 1983); *Donahue v. Permacel Tape Corp.*, 234 Ind. 398, 127 N.E.2d 235 (1955); *Waterford Mortgage Co. v. O'Connor*, 172 Ind. App. 673, 361 N.E.2d 924 (1977). *Seymour v. Buckley*, 628 So.2d 554, 558 (Ala. 1993) (applying Indiana law pursuant to license agreement's choice-of-law clause).

The employer must be able to show that the covenant is a "clear and specific restraint" not a "general restraint of trade," which is void as against public policy and that it is "reasonable with respect to the covenantee, the covenantor, and the public interest." *Fumo v. Medical Group of Michigan City*, 590 N.E.2d 1103, 1109 (Ind. Ct. App. 3d Dist. 1992) (citing *McCart v. H & R Block, Inc.*, 470 N.E.2d 756, 763 (Ind. Ct. App. 1984)).

Thus, to determine whether a covenant is reasonable, courts generally consider three factors: (1) whether restraint is reasonably necessary to protect the employer's business, (2) the effect of the restraint on the employee, and (3) the effect of enforcement upon public interest. *Waterfield Mortgage Co. v. O'Connor*, 172 Ind. App. 673, 361 N.E.2d 924 (1977); *Donahue, supra*.

"Reasonableness is to be determined from the totality of the circumstances, i.e., the interrelationship of protectable interest, time, space, and proscribed activity." *Id.* (citing *McCart, supra*, at 764, quoting *Frederick v. Professional Bldg. Maintenance Indus.*, 168 Ind. App. 647, 344 N.E.2d 299, 302 (1976)). The length of time and geographic area restrictions should be no greater than is reasonably necessary to protect the employer's legitimate business interest.

"A covenant not to compete is unreasonable when it is broader than necessary for the protection of a legitimate business interest in terms of the geographical area, time period, and activities restricted." *Smart Corp. v. Grider*, 650 N.E.2d 80, 83 (Ind. Ct. App. 1995) (citing *Fogle v. Shah*, 539 N.E.2d 500, 503 (Ind. Ct. App. 1989)). "A covenant not to compete must be sufficiently specific in scope to coincide with only the legitimate interests of the employer and to allow the employee a clear understanding of what conduct is prohibited." *Id.* (citing *Field v. Alexander & Alexander of Ind., Inc.*, 503 N.E.2d 627, 635 (Ind. Ct. App. 1987)).

Absent special circumstances, such as an employee's knowledge of trade secrets or confidential information, the geographic restriction should be no broader than the employee's---not the employer's--- geographic area of work. *See, e.g., Cap Gemini Am. v. Judd*, 597 N.E.2d 1272, 1288 (Ind. Ct. App. 1st Dist. 1992) (noncompetition agreements purporting to restrict computer analysts -- former employees of a company that provides computer software programming and analytical services for clients -- from competing in the 3-state area of Indiana, Ohio, and Kentucky, i.e., the area served by the branch in which they worked, were unreasonable because the area was broader than the geographic scope in which the employees, individually, actually worked);

Commercial Bankers Life Ins Co. v. Smith, 515 N.E.2d 110, 114-15 (Ind. Ct. App. 1987) (covenant restricting competition in state of Indiana was unreasonable where employee worked primarily in northern Indiana).

As to activity restrictions vis-a-vis geographic restrictions, note that

the availability of the particular specialty practiced by the [employee] is a matter to be considered by the trial court in looking at the totality of the circumstances. Where a specialist offers services uniquely or sparsely available in a specified geographical area, an injunction may be unwarranted because the movant [former employer] is unable to meet the burden of showing that the public would not be disserved.

Fumo v. Medical Group of Michigan City, 590 N.E.2d 1103, 1109 (Ind. Ct. App. 3d Dist. 1992) (declining to find, as a matter of law, that activity restriction on practice of gastroenterology was unreasonable and void as against public policy, given "intensely contested factual issue of whether the gastroenterology services (absent [former employee's] services) offered in the proscribed area are so deficient as to expose the public to unnecessary risks.").

The former employer must demonstrate "that the former employee has gained a unique competitive advantage or ability to harm the employer before such employer is entitled to the protection of a noncompetition covenant." *Hahn v. Drees, Perugini & Co.*, 580 N.E.2d 457, 459 (Ind. Ct. App. 2d Dist. 1991).

"The ultimate determination as to whether a covenant not to compete is reasonable is a question of law for the court." *Smart Corp v. Grider*, 650 N.E.2d 80, 83 (Ind. Ct. App. 1995) (citing *Hahn v. Drees, Perugini & Co.*, 581 NE.2d 457, 459 (Ind. Ct. App. 1991)).

For example, Indiana courts have generally affirmed covenants for terms of 1 to 3 years after employment ends. *See, e.g., Licocci v. Cardinal Assocs.*, 445 N.E.2d 556 (Ind. 1983); *4408, Inc, v. Losure*, 175 Ind. App. 658, 373 N.E.2d 899 (1978).

However, Indiana courts have occasionally upheld covenants for terms of 5 years after employment ends. *See, e.g., Rollins v. American State Bank*, 487 N.E.2d 842, 843 (Ind. Ct. App. 1986); *Miller v. Frankfort Bottle Gas*, 136 Ind. App. 456, 202 N.E.2d 395 (1964); *Welcome Wagon v. Haschert*, 125 Ind. App. 503, 127 N.E.2d 103 (1955); *but see Captain & Co. v. Towne*, 404 NE.2d 1159 (Ind. Ct. App. 1980) (2-year covenant not enforceable).

In the absence of a geographical limitation, the covenant must list a specific limited class of persons with whom contact is prohibited. *Commercial Bankers Life Ins Co. of Am. v. Smith*, 516 N.E.2d 110 (Ind. Ct. App. 1987); *Field v. Alexander & Alexander of Ind.*, 503 N.E.2d 627 (Ind. Ct. App. 1987). *See also College Life Ins Co. of Am. v. Austin*, 466 N.E.2d 738 (Ind. Ct. App. 1984) (lack of durational and geographic limitations renders covenant void as against public policy); *Ebbeskotte v.*

Tyler, 127 Ind. App. 433, 142 N.E.2d 905 (1957) (a covenant indefinite as to time but very narrowly limited in geographic area is enforceable). In *JAK Productions, Inc. v. Wiza*, 986 E2d 1080 (7th Cir. 1993), the Seventh Circuit strongly reaffirmed the Indiana "blue-pencil" rule for noncompete clauses in employment agreements, and highlighted the importance of defining the employer's protectable customers in the employment agreement. Here, the court allowed a customer restriction to be enforced by the employer, even where the restriction required court-imposed limitations to be enforceable.

- **Mistake #8: The "Naked" Non-Compete or "One Size Fits All"**

A post-employment restrictive covenant also must be ancillary to the main purpose of an employment or compensation agreement. *Ohio Valley Communications v. Greenwell*, 555 N.E.2d 525 (Ind. Ct. App. 1990); *Woodward Ins v. White*, 437 N.E.2d 59 (Ind. Ct. App. 1981) (covenant is valid when covenant and contract have significant nexus to employment situation such as to render covenant ancillary to employment situation and necessary to protect legitimate rights of the employer). Equally bad: assuming that a non-compete agreement enforceable in one state will be enforceable in all states, or that your choice of law provision will be respected in all states.

- **Mistake #7: Failure to Include a "Blue Pencil" Clause/Relying on a "Blue Pencil" Clause**

- * We'll let the court tell us what his enforceable
- * Blue-penciling is limited in many states
- * some courts refuse to rewrite contract after the fact

Some courts will only strike language, not add new language. *See, eg, College Life Ins. Co. of Am v. Austin*, 466 N.E. 2d 738 (Ind. Ct. App. 1984) (absence of temporal and area terms made covenant overbroad and court declined to rewrite covenant so as to make it reasonable); *Donahue v. Permacel Tape Corp.*, 234 Ind. 398, 127 N.E.2d 235 (1955) (court declined to enforce 3-year restriction that purported to restrict competition in United States and Canada).

If the covenant as written is not reasonable, the courts may not create a reasonable restriction under the guise of interpretation, because to do so would subject the parties to an agreement they have not made. *Licocci v. Cardinal Associates, Inc.* (1983), Ind., 445 N.E.2d 556, 561. However, if the covenant is clearly separated into parts and some parts are reasonable and others are not, the contract may be held divisible and the reasonable restrictions enforced. *Id.* In such cases, unreasonable provisions are stricken and reasonable provisions may be enforced under the blue pencil process. *Hahn [v. Drees, Perugini & Co.* (1991), Ind. App., 581 N.E.2d 457,] 462. Blue penciling must be restricted to applying terms which already clearly exist in the contract and the court's redaction of a contract may not

result in the addition of terms that were not originally part of the contract. *Id.* Simply put, if practicable, unreasonable restraints are rendered reasonable by scratching out any offensive clauses to give effect to the parties' intentions. *Seach v. Richards, Dieterle & Co.* (1982), Ind. App., 439 N.E.2d 208, 215.

Smart Corp. v. Grider, 650 N.E.2d 80, 83-84 (Ind. Ct. App. 1995).

If a contract contains an unenforceable provision which cannot be eliminated without destroying the symmetry and primary purpose of the contract, we may not sever the provision and enforce the rest of the contract; rather, we must deem the entire contract unenforceable. *See Brokaw v. Brokaw* (1980), Ind. App., 398 N.E.2d 1385, 1388; *Seach v. Richards, Dieterle & Co.* (1982), Ind. App., 439 N.E.2d 208, 215.

Blackburn v. Sweeney, 637 N.E.2d 1340, 1343 (Ind. Ct. App. 3d Dist. 1994) (finding that, because unenforceable covenant not to advertise contained in law partnership dissolution agreement was primary purpose of agreement and was specifically tied to other terms of agreement, covenant could not be severed from remainder of agreement and entire agreement is thus unenforceable).

In *Seach [v. Richards, Dieterle & Co.]*, 439 N.E.2d 208 (Ind. Ct. App. 2d Dist. 1982)], the covenant restricted the former employee from contacting "present, past, and prospective clients." *Seach, supra*, 439 N.E.2d at 213. The court held that the contract was enforceable to the extent of the prohibition against "present" clients, but that the restraint against "past" and "prospective" clients was impermissible. The court further held that the offensive portions of the contract were severable in terms. Thus, the contract was divisible and proper restrictions contained in the contract were enforceable.

It is clear that court redaction of a contract may not result in the addition of terms that were not originally part of the contract. *Seach, supra*, at 215. Blue pencilling, then, must be restricted to applying terms which already exist in the contract. In the instant case, the covenant sought to restrain [the former employees] from dealing with any credit union which had paid fees to [the former employer] for services performed during a period of time extending from three years before [the former employees] began working until the date of their termination. Although not couched in terms "past" and "present," the covenant undeniably sought to restrain [the former employees] from dealing with "past" and "present" clients of [the former employer]. We reject the notion that, in the context of the blue pencil doctrine, "clearly separated into parts necessarily requires a formalistic listing of the individual components of an agreement, using specific terms of art. This is especially so when, as here, the several restrictions contained in a particular clause are plain and unmistakable. In finding the instant contract amenable to court redaction, we neither rewrite the existing agreement nor add a term not heretofore contained in the contract. Indeed, even under the more formalistic rule advocated by [the former employees], the offensive restriction pertaining to "past" clients contained in the covenant now before us may be

surgically removed by deleting from the contract the words "within three (3) years prior to"; all that remains is to add the word "from" for the simple purpose of making the clause grammatically correct. The result: "A client shall be any individual, firm, or credit union from whom the employer has received a fee for services performed from the date of the employee's employment thru [sic] and including the date of the employee's termination"-is an enforceable restriction against dealing with [the former employer's] "present" clients.

In summary, we hold that the contract is susceptible to the blue pencil process and that it is enforceable to the extent that it restrains [the former employees] from dealing with "present" clients of [the former employer]

Hahn v. Drees, Perugini & Co., 581 N.E.2d 457, 462 (Ind. Ct. App. 2d Dist. 1991) (court defined "present" clients as clients who were serviced by employer during former employees' employment with former employer).

Indiana adheres to the rule that when objectionable and non-objectionable terms appear in a contract, "the contract may be held to be divisible, and the restriction as to the reasonable limits expressed may be enforced. . . ."

If the excessive restraint is severable in terms, it may be disregarded and the remaining part of the covenant enforced. Such enforcement of a portion of the contract is consistent with the rule that courts strive to enforce the intent of the parties as far as practicable. . . . Court redaction of contracts cannot, of course, add any terms to the instruments and must restrict itself to the application of existing terms. [Citations omitted.]

Seach supra, at 214-15 (modifying restriction that purported to prevent accountant from ever servicing former employer's clients, so as to bar servicing of present clients but not past or future clients). *See also Licocci v. Cardinal Assocs*, 432 N.E.2d 446, 452 (Ind. Ct. App. 1982), *vacated on other grounds*, 445 N.E.2d 556 (Ind. 1983) (if covenant is clearly separated into parts and some parts are reasonable and others are not, contract may be held divisible and reasonable restrictions may then be enforced); *Welcome Wagon v. Haschert*, 125 Ind. App. 523, 127 N.E.2d 103 (1955) (court upheld 5-year limitation against former employee of advertising and sales promotion business as to city in which employee had performed services, but declined to enforce restriction as to any other city in which employer was doing, or planned to do, business).

But the courts are not compelled to blue pencil. *See Frederick v. Professional Bldg. Maintenance Indus.*, 168 Ind. App. 647, 344 N.E.2d 299, 302 (1976) (if restrictive covenant is unreasonable, court may not enforce reasonable restriction under guise of interpretation). For instance, where the geographic term is too severe, the court may decline to blue pencil, even if the terms of the covenant are separable. *South Bend Consumers Club v. United Consumers Club*, 572 F. Supp. 209 (N.D. Ind. 1983) (a franchisee's covenant not to compete for 2 years within 25 miles of any of franchisor's outlets was unreasonable as a matter of Indiana law and court declined to blue pencil).

- **Mistake #6: "What is a Barleycorn, anyway?"**

- * Many states require independent consideration for an employment contract
- * Delay in signing after employment commenced is dangerous
 - A job is often sufficient consideration
 - Continued employment may not be enough
- * Consideration Can Be Cheap and Go A Long Way
 - a barleycorn < \$50
 - extra notice on termination of one day
 - a holiday

In most states, a covenant not to compete signed at the inception of employment provides sufficient consideration for the covenant not to compete. *Advanced Copy Prods v. Cool*, 173 Ind. App. 363, 363 N.E.2d 1070 (1977) (provision requiring 30 days' notice of termination is sufficient consideration to support covenant not to compete). In *Ackerman v. Kimball Int'l Inc.*, 652 N.E.2d 507 (Ind. 1995) (employer's promise in employment agreement, made nine years after employment began, to continue to employ employee at-will, and ratification of non-superseding termination agreement, made in 1994, gave consideration for afterthought covenant in employment agreement; expressly adopting and incorporating by reference portion of court of appeals opinion on this issue, contained at *Ackerman v. Kimball Int'l Inc.*, 634 N.E.2d 778, 780-81 (Ind. Ct. App. 1994)); *See also Rollins v. American State Bank*, 487 N.E. 2d 842 (Ind. Ct. App. 1986). The promise of continued employment is sufficient consideration for a covenant not to compete. *Leatherman v. Management Advisors*, 448 N.E.2d 1048 (Ind. 1983).

- **Mistake #5: "What was that in law school about non-assignability of personal service contracts?"**

- * Answer: Non-competes must be assignable and assigned in the purchase agreement.
- * Failure to assign can be disastrous

A number of courts follow the general rule that personal service contracts, including covenants not to compete, may not be assigned. *Norlund v. Faust*, 675 N.E.2d 1142, 12 IER Cases 839 (Ind. App. 1997), *clarified on other points*, 678 N.E.2d 421 (Ind. App. 1997); *SDL Enters., Inc. v. DeReamer*, 683 N.E.2d 1347, 1349 (Ind. App. 1997). However, an exception to this general rule exists when the original agreement specifically allows assignment by the employer (*Peters v.*

Davidson, 359 N.E.2d 556, 562 (Ind. App. 1977)), or when the employee consents to the assignment. *Norlund*, 675 N.E.2d at 1151; *SDL*, 683 N.E.2d at 1349-50.

Many courts are able to apply the first exception by merely reading the original contract. If the original contract contains language which provides that the rights and obligations under the agreement are assignable and transferable, then the non-compete agreement may be assigned without consent from the employee. *Peters*, 359 N.E.2d at 558. It should be noted, however, that the actual facts in *Peters* were similar to those in *Norlund*, in that the employee continued to work without objection after the assignment. *Id.* Consequently, the court probably could have also based its holding on the "consent" exception discussed below, rather than merely relying on the language of the original contract.

In Indiana, the second exception to the general rule forbidding assignment relies more heavily on the court's discretion. A non-compete agreement may be assigned absent any language in the agreement regarding assignability if the employee subsequently consents to the assignment. *Norlund*, 675 N.E.2d at 1151; *SDL*, 683 N.E.2d at 1349-50. The court in *Norlund* held that this "consent" may arise solely from the actions of the employee. *Norlund*, 675 N.E.2d at 1152. The court held that an employee has consented to an assignment if: 1) the employee knew of the assignment; and 2) the employee knowingly continues his employment with the assignee. *Id.* In *Norlund*, the court found that an employee had consented to the assignment by continuing employment with the assignee after learning that the assignment took place. *Id.*

- **Mistake #4: "It's Protectable if I say it's Protectable, Dangnabit!"**
 - * touchstone: a protectable interest
 - customer goodwill
 - trade secrets
 - * putting janitors under a non-compete is futile and dangerous

Protectable Interests.

Most courts will not enforce a covenant not to compete unless an employer can show a protectable interest. "It is evident where the underlying protectable interest appears minimal, courts are apt to closely scrutinize the terms of the restraint." *Slisz v. Munzenreider Corp.*, 411 N.E.2d 700, 705 (Ind. Ct. App. 1980).

"In Indiana, a noncompetition covenant may be valid to prevent an employee from using his employment relationship for his own benefit or for the benefit of a competitor." *Cap Gemini Am. v. Judd*, 597 N.E.2d 1272, 1288 (Ind. Ct. App. 1st Dist. 1992) (citing *Commercial Bankers Life Ins Co. v. Smith*, 515 N.E.2d 110, 112 (Ind. Ct. App. 1987)).

In Illinois, existing customers are the employer's protectable interest; however, the employee also has a protectable interest in his/her pre-existing relationships. *See Lawrence & Allen, Inc. v. Cambridge Human Resource Group, Inc.*, 685 N.E.2d 434, 441 (Ill. Ct. App. 2d Dist. 1997).

Covenants have been enforced to protect an employer's confidential information, customer lists, goodwill, investment in special training or techniques, and actual solicitation of customers. *See, e.g., In re Uniservices*, 517 E2d 492 (7th Cir. 1975) (former employer has no protectable interest in customer lists and information that can be obtained by lawful surveillance, but information on customer requirements, habits, and preferences may be confidential and, thus, a protectable interest); *McCart v. H & R Block, Inc.*, 470 N.E.2d 756 (Ind. Ct. App. 1984); *Captain & Co. v. Towne*, 404 N.E.2d 1159 (Ind. Ct. App. 1980); *Welcome Wagon v. Haschert*, 125 Ind. Ct. App. 503, 127 N.E.2d 103 (1955).

An employer is entitled to protect the "good will" of its business, which includes such things as "names and addresses and requirements of customers and the advantage acquired through representative contact. . . ." *Donahue [v. Permacel Tape Corp.]*, 234 Ind. 398, 127 N.E.2d 235, 240, (1955)]. Included also in [the former employer's] protectable good will interest is the right; via a proper covenant not to compete, to restrict a former employee from enticing away the employer's old customers. *Id.* at 241; *see also Licocci [v. Cardinal Assocs.]*, 445 N.E.2d 556, 563 (Ind. 1983).]

Hahn v. Drees, Perugini & Co., 581 NE.2d 457, 460 (Ind. Ct. App. 2d Dist. 1991).

Generally, an employer has no protectable interest in restricting contact with its past customers or clients. *Id.* at 461. Although *Seach v. Richards, Dieterle & Co.*, 439 N.E.2d 208 (Ind. Ct. App. 2d Dist. 1982), may be read to create a narrow exception to the general prohibition against restricting contact with a former employer's past clients, the *Seach* court itself expressed skepticism of the practice of restraining former employees from doing business with past customers of their employers. *Hahn, supra*, at 461.

The *Seach* court stated:

Such a limitation [regarding when past clients with whom contact is prohibited may have been customers of the employer] *might* take the form of proscribing contact with customers who have done business with the employer within one year prior to the employee's termination of employment. Any limitation would necessarily have to reflect the nature of the business involved in setting what is a reasonable time limit, and would also have to be formulated to protect and accommodate the valuable interests of the employer, such as customer lists and in-house knowledge.

439 N.E.2d at 214 n.4 (citation omitted); *Hahn, supra*, at 461 n.4.

For purposes of this opinion, and generally, a "present" client is a client that did business with [the employer] during [the employee's] employment. . . .

Hahn, supra, at 460 n.3. See also *Smart Corp v. Grider*, 650 N.E.2d 80, 83 (Ind. Ct. App. 1995) ("A former employer has a legitimate business interest in restricting its former employees from enticing away the employer's old customers."), citing *Hahn*, 581 N.E.2d at 460).

However, an employer has no protectable interest in the general knowledge, information, and skills gained by an employee in the course of his or her employment. *Brunner v. Hand Indus*, 603 N.E.2d 157, 8 IER Cases 7 (Ind. Ct. App. 1992) (metal polisher; clause in employment contract requiring employee to repay costs of training, on basis of sliding scale increasing from \$2,200 for less than 2 months' work to \$20,000 for 24-36 months' work, is unreasonable anticompetitive restraint rather than attempt to recoup legitimate training expenses; sliding scale could have made employees liable for amounts greater than all wages they had received from employer).

In *Brunner*, the defendant employee was a polisher of orthopedic products for plaintiff employer. As a condition of employment the employee was required to execute a noncompete agreement. The agreement stipulated that if he were to take employment with a competing business, he would have to reimburse the employer, ostensibly for the investment in his training, pursuant to a payment schedule based on length of service with the employer. The employee left the employer's service and the employer attempted to enforce the agreement. The court of appeals held that the agreement unreasonably restricted the protectable interests of the employee and was thus unenforceable. The court noted that the record did not disclose that the employee had taken customer lists, confidential information, or other trade secrets with him. In addition, although the agreement specified no definite duration of employment, the employer was attempting to impose a substantial burden on the employee for his acquisition of "general knowledge and skills." The final straw seemed to be the fact that, under the reimbursement scheme, it was possible for a departing employee to be liable for more than all of the wages he received during employment.

Courts will also enforce a covenant to protect a "trade secret" as that term is defined by the Uniform Trade Secrets Act, IND. CODE § 24-2-3-2 (Michie 1991). *Ackerman v. Kimball Int'l, Inc.*, 634 N.E.2d 778 (Ind. Ct. App. 1994). However, in 1995, the state supreme court in *Ackerman v. Kimball Int'l, Inc.*, 652 N.E.2d 507, 11 IER Cases 153 (Ind. 1995), "wr[ote] to clarify that otherwise unenforceable covenants not to compete do not automatically become enforceable solely because an employee is in possession of trade secrets." *Id.* at 508. (See Appendix D for Uniform Trade Secrets Act.) Information that is readily or easily available is not a trade secret under the Act. *College Life Ins. Co. of Am. v. Austin*, 466 N.E.2d 738 (Ind. Ct. App. 1984).

- **Blacklisting/Tortious Interference Claims**

- * Blacklisting Statute in Indiana: *Bridgestone/Firestone v. Lockhart*
- * Non-compete enforcement must be based on harm or threatened harm

Many states will look very seriously at an employer's misuse of a non-compete provisions in terms of potential counterclaims *against the employer!* In *Bridgestone/Firestone v. Lockhart*, 5 F. Supp. 2d 667 (S.D. Ind. 1998), a federal district court not only refused to find for the employer on the employer's attempted enforcement of a non-compete, it found for the employee on the employee's claim against the employer for alleged "blacklisting" e.g. using the non-compete as a means of interfering with the employee's future employment opportunities. In so doing, the court awarded the employee \$50,000 in attorney fees, and seriously considered awarding punitive damages.

Subsequent decisions have limited these "blacklisting" claims. *Burk v. Heritage Food Service Equipment*, 797 N.E.2d 803 (Ind. App. 2000). ("Blacklisting" may not be asserted by the employee if the employee voluntarily resigned from employment.) Nonetheless, tortious interference claims appear viable for many situations where an employer engages in overzealous pursuit of non-compete enforcement.

- **Mistake #3: "Why should I agree to pay good money to an ex-employee just so s/he won't compete?"**
 - * in-term v. post-term
 - * worldwide economy

Courts show far more generosity to employers, and their non-compete provisions, when they are actually paying ex-employees not to compete. "In-term" covenants may be much broader in scope. Any issue of bad faith by the employer will hurt the enforcement of the covenant, and may create claims for breach of the duty of good faith and fair dealing. *See Weiser v. Godby Bros.*, 659 N.E.2d 237 (Ind. App. 1995). Consider adding language to your non-compete paying the employee some percentage of base salary to serve as a consultant for one year after the end of employment, with the additional caveat that no competing conduct will occur by the employee any where in the world during that period.

- **Mistake #2: "Why would I want to talk to an employee who has quit?"**
 - * Answer: to make sure they know their non-compete obligations
 - * Answer: to make them commit to paper that they haven't taken anything
 - * Answer: to show you care about trade secrets

Here is a sample form:

EXIT INTERVIEW STATEMENT OF UNDERSTANDING

I hereby confirm that I have returned, or will return, by _____, the following confidential items obtained, or created, during and in the course of my employment with SmartCo. Supply LLC ("SmartCo."), and its subsidiary and affiliated entities (hereafter referred to collectively as "SmartCo."):

- (1) all computer programs;
- (2) all magnetic media;
- (3) all training manuals;
- (4) all computer manuals;
- (5) all client lists and information;
- (6) all client files and correspondence;
- (7) all financial statements and sales forecasts;
- (8) all human resource department materials and payroll records;
- (9) all other badges, records, lists, files, credit cards, keys, office equipment, and expense advances.
- (10) all other confidential SmartCo. documents and property.

I hereby affirm and attest that I have also returned, or will return by _____, all copies of any of the above listed items. I understand that while I have the right to use in any future employment any general knowledge of the trade/industry obtained as a result of my employment with SmartCo., I must at all times conform my conduct to the requirements of the applicable trade secrets law, and my SmartCo. non-compete obligations.

As required by the law of trade secrets, I will not misappropriate (e.g., use or disclose to any third party) any trade secret of SmartCo.. I recognize that the penalties for a trade secret violation may include disgorgement of profits, payment of royalties, compensatory damages, punitive damages, and attorneys fees. I understand that I can ask SmartCo. to render an opinion as to whether SmartCo. considers certain knowledge to be a trade secret, if such a question should arise.

Dated: _____

Witnesses:

- **Mistake #1: "Warranties Are for Used Cars."**

- * wrong
- * ask questions, make them sign
- * you don't want to find something in the trunk of the employee's car after discovery has commenced

Key language:

Warranty. Employee hereby warrants and represents as follows:

- a. That the execution of the Agreement and the discharge of Employee's obligations hereunder will not breach or conflict with any other contract, agreement, or understanding between Employee and any other party or parties.
- b. Employee has ideas, information and know-how relating to the type of business conducted by SmartCo., and Employee's disclosure of such ideas, information and know-how to SmartCo. will not conflict with or violate the rights of any third party or parties.

Conclusion

Armed with these 10 tips, go forth and serve your clients well. However, beware that this area of law remains volatile, fluid, and oft-litigated. Admonish clients to review and update their agreements at least every two years.