

Automation Alley Newsletter

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Recent Developments in Non-Compete/Trade Secret Law

Wisconsin Supreme Court Overrules Prior Case Law Holding That an Unreasonable Term in a Restrictive Covenant Voids the Entire Employment Agreement

In *Star Direct v. Dal Pra* (Wisconsin Supreme Court, July 14, 2009 – case # 2007AP617), the employment agreement at issue contained separate non-compete, non-solicit, and confidentiality provisions. The Wisconsin Supreme Court overruled the lower court's decisions (both circuit court and appellate court) that because the non-compete was invalid, so too were the non-solicit and confidentiality provisions because they were, according to the lower courts, "indivisible" from the non-compete. The Court held that "[r]estrictive covenants are divisible when the contract contains different covenants supporting different interests that can be independently read and enforced. Overlap, even substantial overlap, between clauses is not necessarily determinative. Employers may have several protectable interests that apply in similar, though not exactly the same, situations and it makes sense to set these out in separate post-termination restrictive covenants."

Impact on Employers: This recent Wisconsin Supreme Court decision all but does away with the "void one, void them all" approach and opens the door for employers looking to enforce their employment agreements in Wisconsin and/or under Wisconsin law. Moreover, this decision provides an opportunity for employers to review their current employment agreements and strengthen them relative to the restrictive covenants. Indeed, it may be beneficial to bifurcate non-compete, non-solicit, and confidentiality provisions/agreements and reevaluate the reach of the restrictions (i.e. time periods and customer restrictions).

Beware of the Signature Line!

In *IBM v. Johnson*, 2009 U.S. Dist. LEXIS 56091 (S.D.N.Y. June 26, 2009), IBM's former Vice-President of Corporate Development, David Johnson, left to take a position as Senior Vice-President of Strategy with Dell, Inc. IBM immediately sought injunctive relief against Johnson for breach of his non-compete agreement. In turn, Johnson argued that he never properly signed the non-compete agreement and never intended to be bound to it. Indeed, Johnson signed the agreement

on the designated line for IBM, not himself.

Ultimately, Johnson's bold move turned out to be a good one for him. The court agreed with him and denied IBM's request for injunctive relief. Importantly, the court focused not on Johnson's signature, but on IBM's reaction. After receiving the improperly signed agreement, IBM repeatedly tried to get Johnson to sign the agreement again and threatened to withhold equity grants. In the eyes of the court, such conduct on the part of IBM clearly showed that they believed that Johnson did not intend to be bound when he intentionally signed the wrong line.

Impact on Employers: The facts of *IBM v. Johnson* underscore the importance of reviewing employment agreements both before and after execution. Further, it is critical that employers have a set policy/plan relative to employees who refuse to execute such agreements and strictly adhere to that policy/plan.

How Can Butzel Long's Trade Secret/Non-Compete Practice Group Help You?

As businesses, both local and national, endure the most trying economic times in over eighty years, it is imperative to protect your business' most valuable assets - your proprietary information and client and customer relationships. Now, more than ever, competition for market share is fierce, and some businesses are resorting to simply taking their competitors' market share by luring away their competitors' key employees, and in turn, obtaining their competitors' confidential and proprietary business information and most valued customer relationships.

Moreover, many employees (many of whom have been laid off given the current economic conditions) are more likely to disregard their non-compete, non-solicit, and confidentiality obligations for a variety of reasons. Those reasons include (1) the gamble that their financially-challenged former employer will not have the resources or urge to go after them, and (2) a sense that they are somehow not morally obligated to honor their agreements. When the economy starts to turn around and companies become more financially stable, they may be more inclined to enforce the restrictive covenants in their employment agreements. But if a company has been inconsistent and passive relative to enforcement of those covenants during the economic downturn, the company may not be able to enforce its employment agreements. Indeed, the new wave of departing employees may argue that those restrictive covenants are unenforceable given the company's inconsistent and passive approach.

What can you do to prevent this? Make sure that your business is adequately protected with updated and legally enforceable restrictive covenants prohibiting wrongful competition, customer solicitation, and disclosure and use of your most sensitive business data. Along with this, putting the physical and technical safeguards in place to prevent the wrongful dissemination of your business data, such as password protecting particular information, encrypting certain electronic data, and limiting access to those who truly need to know.

Also, it is imperative to move swiftly to enforce your restrictive covenants and legal rights when business information has been compromised or you become aware that an employee has taken

actions in violation of their continuing post-employment obligations, such as non-competition, customer non-solicitation, etc. As noted above, failure to take action now may ultimately doom future enforcement actions.

Butzel Long's Trade Secret/Non-Compete Practice Team has extensive local and national experience in auditing your business and ensuring that you have the pro-active measures necessary to protect against information and customer theft, as well as the litigation team ready to move at a moment's notice when a violation occurs. Over the past ten years, Butzel Long's Trade Secret/Non-Compete Team has counseled and successfully litigated these issues and matters in over 33 states.

Take the time now to make sure your most valuable business assets are secure.

If you have question regarding the above or other trade secret/non-compete matters, please contact your Butzel Long attorney or a member of the Trade Secret/Non-Compete Practice Team.

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