

**YOU CAN'T DO THAT!
RESTRAINTS ON TRADE: NON-COMPETES,
CONFIDENTIALITY AND OTHER AGREEMENTS**

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*The material contained herein is intended to be educational. It does not constitute legal advice.

There are four major agreements:

- I. Non-Compete/Non-Competition Agreements
- II. Non-Solicitation Agreements
- III. Confidentiality/Non-Disclosure Agreements
- IV. Invention Agreements
- V. Questions and Answers

All of these agreements are “restraints on trade” and are therefore disfavored in the American courts. Our capitalist system encourages competition, and any restraints on trade or ability for people to earn a living will be limited by the courts. Therefore, if you want to enforce these types of agreements — that is “protect” or “punish” — you must have your “ducks in a row.” Put another way, any way an employee or a court can find to avoid applying these agreements, they will.

I. Non-Compete/Non-Competition Agreements.

A. Defined.

1. These are agreements variously described as “non-competes,” “non-competition agreements,” or “restrictive [employment] covenants.”
2. The employer seeks to prevent the employee from competing with the employer (or taking the employer’s customers) for a specified period of time, in a specified geographic area, and in a specified field.

B. Limitations.

1. Because non-competition agreements prevent people from being employed, courts strictly limit these agreements.¹
2. Agreements that are “overly broad” will be treated as void or “blue penciled” (re-written) to less onerous and more reasonable terms.
3. The court requires that non-competition agreements be reasonable in three ways:
 - a. Geographic Scope. The agreement must be “reasonable” and not too broad geographically. That is, a provision that prevents someone from working anywhere in the Twin Cities might be found reasonable, whereas preventing someone from working anywhere in the United States would be found to be

¹ See Kallok v. Medtronic, Inc., 573 N.W.2d 356, 361 (Minn. 1998); Nat’l Recruiters v. Cashman, 323 N.W.2d 736, 740 (Minn. 1982).

unreasonable. (What is reasonable? It depends on the facts and the judge.)

- b. Time. The agreement must be reasonably limited as to time. In mature industries (e.g., auto manufacturing, home construction), longer non-competes of up to three years, may be enforceable. In rapidly developing industries (e.g., Internet sales or wireless development) shorter periods will be enforced, usually under a year. (Once again “reasonableness” depends on the facts and the judge.)
- c. Industry Description. The non-compete must be reasonably limited as to the description of the industry or job subject to exclusion. For example, excluding an employee from all employment in the real estate industry may be excessive, whereas excluding the employee from retail multi-family residential homes sales may be appropriate.

What is reasonable? - it depends upon the facts and the judge.

- C. Consideration. There must be consideration (payment) to support a non-compete.²
 1. At Hiring. If a non-compete agreement is signed at the time the employee is hired, no “independent consideration” is required.
 2. After Hiring. If the agreement is signed after the employee is hired (even by one day or one hour),³ it may be too late. What does this mean?
 - a. What if you want these documents signed after they are employed? You must give the employee adequate additional “real” and substantial consideration.⁴
 - b. What is “adequate and real” consideration? \$100 to prevent an employee from working for a year or two years is not found to be

² Freeman v. Duluth Clinic, 334 N.W.2d 626, 630 (Minn. 1983).

³ See Davies & Davies Agency, Inc. v. Davies, 298 N.W.2d 127, 133 (Minn. 1980); Midwest Sports Marketing v. Hillerich, 552 N.W.2d 254, 265-66 (Minn. App. 1996); contra Tappe Construction Co. v. Siedow, 2001 WL 1646653 (Minn. App. Dec. 1, 2001 (unpublished)).

⁴ Nat’l Recruiters, 323 N.W.2d at 740; Sanborn Manufacturing Co. v. Currie, 500 N.W.2d 161, 164 (Minn. App 1993).

adequate. Depending upon the employee and his/her compensation, usually the non-compete must be supported by a payment of thousands, and in some cases, tens of thousands of dollars.

c. Caveats.

(1) Raises as Consideration.

(a) You cannot give an employee their normal raise and require signing of a non-compete. The employee must be told they can refuse to sign the non-competition and waive the additional consideration. Mere continuation of employment is insufficient consideration to support a non-compete.

(b) A recent (unpublished) case held that the employee must receive an “increased wage ... [as] a real benefit beyond the wage [the employee] was entitled to receive.” The court found the real “salary increase being tied specially to the agreement containing the covenant not-to-compete, was sufficient, independent consideration for that covenant.”⁵

(2) Fully Disclosed and Negotiated. A recent (unpublished) case upheld a non-compete agreement despite the fact that the non-compete was signed by the employee after hiring. The Court held that there was sufficient evidence that the non-compete was fully disclosed and negotiated prior to hiring to support the non-compete.⁶

D. Example Provision. (This represents only part of the agreement and terms may vary depending on your situation.)

“ Employee covenants that during the term of Employee’s service with Employer, and for a period of twelve (12) months following the termination of service with Employer, Employee shall not directly or indirectly, acting individually or on behalf of another person or entity enter into employment or render any services in the State of Minnesota, providing, selling, repairing or

⁵ Supra Tappe at p.3.

⁶ Tonna Heating Cooling, Inc. v. Waraxa, 2002 WL 31687601 (Minn. App. Dec. 3, 2002 (unpublished)).

maintaining HVAC, or other general repair or maintenance of commercial or residential buildings.”

II. Non-Solicitation Agreements.

- A. Defined. Non-solicitation agreements generally prevent former employees from soliciting the employer’s current employees.
- B. Limitations. Once again this is a “restraint on trade” and is disfavored by the law. However, courts have been somewhat more willing to enforce provisions which prevent a former employee from injuring his/her former employer by inducing the employer’s current employees to quit.
- C. Consideration.
 - 1. At Hiring. If the non-solicitation provision is signed at the time the employee is hired, once again “consideration” is not an issue.
 - 2. After Hiring. Minnesota has not directly addressed whether independent consideration is required if a non-solicitation provision is imposed after an employee has been hired. However, it is likely that Minnesota would require independent consideration for an employer to enforce such a provision.
- D. Example Provision. (This represents only part of the agreement and terms may vary depending on your situation.)

“Employee covenants that during the term of Employee’s service with Employer, and for a period of twelve (12) months following the termination of service with Employer, Employee shall not approach, entice, or solicit any employees of Employer to leave the employ of Employer and either join Employee in consulting or employment with any other person, firm, company or other entity which is providing, selling, repairing or maintaining HVAC, or other general repair or maintenance of commercial or residential buildings.”

III. Confidentiality/Non-Disclosure Agreements.

- A. Defined. These are provisions or agreements which prevent employees from disclosing “confidential information” which the employee learned while working for the employer. This information may not be disclosed even after the employee is no longer working for the employer.
- B. Limitations. The information must be “Confidential.” As with all “restraints of trade,” courts will not protect information which is not truly “confidential.” That is, merely by indicating in an agreement that certain information is confidential does not automatically mean that a court will treat it as confidential.

For example, typically “customer lists” are identified as confidential information. However, if the employer lists its customers on its web site, then later tries to claim the former employee violated the confidentiality agreement by disclosing the customer list, the court will not find a breach because the information was not truly “confidential.”

Put another way, the information which the employer seeks to treat as confidential, must not be subject to public disclosure. However, in the absence of public disclosure, courts recognize the importance of developing confidential information, and will generally protect the employer from the disclosure of confidential material.

C. Consideration.

1. At Hiring. These agreements should be signed at the time the employee is hired.
2. After Hiring. Minnesota requires separate, substantial and adequate consideration if an employer seeks to impose these provisions after the employee has been hired. (How much consideration is “adequate?” It depends on the judge and facts.)⁷

D. Example Provision. (This represents only part of the agreement and terms may vary depending on your situation.)

“Confidential Information” shall mean all information not generally known, including trade secrets (whether oral, written, or in other tangible form), which relates to the manufacture, use, sale or marketing of Employer’s products or components of such products, including, but not limited to: knowledge or information developed by you while an employee, including any sales materials, products, techniques, software, customer lists, or management or technical information and the like.”

E. Extra Credit. Is “Confidential Information” the same as “Trade Secrets”?

No. Confidential information, as I discussed above, is merely information that is not readily available to the public.

For information to be a “Trade Secret” specific statutory requirements must be met. (Minn. Stat. § 325C which mirrors the federal law.)

⁷ Jostens, Inc. v. Nat’l Computer Systems, Inc. 318 N.W.2d 691, 703-04 (Minn. 1982).

Secret:”⁸ There are two major requirements in order to assert that information is “Trade

1. Availability. The information is valuable because it is not “readily ascertainable by proper means;” and
2. Efforts to Protect. There have been “efforts that are reasonable under the circumstances to maintain its secrecy.”

What does this mean? If you want something to be a trade secret, it must be “secret” and you must take affirmative steps to treat it confidential (e.g., stamp documents “confidential” and, depending on the nature of the information, engage in other security measures). Example: visiting ADC or 3M.

IV. Invention Agreements.

- A. Defined. These are agreements which delineate the ownership of inventions developed during the employee’s tenure at the employer.
- B. Limitations. The employer does not own everything invented by employee while the employee is working for the employer.⁹ Minnesota was the first state to adopt a statute protecting employee’s inventions made during employment. This provides that an employee cannot assign to an employer inventions made on his/her own time. Simply, because an individual is an employee, does not guarantee that inventions generated during an employee’s tenure will be treated as property of the employer. As a result, an invention agreement insures that all inventions by the employee become the property of the employer to the extent permitted by law.
- C. Consideration.
 1. At Hiring. “Invention” agreements signed at the time the employee is hired are enforceable.
 2. After Hiring. It is unknown whether consideration is needed after hiring, but Minnesota will probably require it.¹⁰ Minnesota has not yet ruled whether independent, adequate and real additional consideration is

⁸ See Uniform Trade Secrets Act (Minn. Stat. § 325C.01, subd. 5, which is similar to the federal law).

⁹ Minn. Stat. § 181.78.

¹⁰ E. Cook, “Ownership Rights of Employee Inventions: The Role of Invention Assignment Agreements in State Statutes,” 2 U. Balt. Intel. Prop. L.J. 163, 165-66 and 175-77 (Spring 1994).

required to support invention agreements after an employee has been hired. Some jurisdictions have not required this consideration, however, given other rulings by Minnesota Courts, and its early adoption of statutory protection of employee's inventions, it is likely Minnesota will require independent consideration.

D. Example Provision. (This represents only part of the agreement and terms may vary depending on your situation).

“1. Ownership. Employee hereby assigns and Employer shall own all Inventions made, developed or conceived by Employee during his/her employment.

2. Definition of Inventions. For purposes of this Agreement, “Inventions” means processes, formulae, developments, designs, techniques, machines, plans, manufactures, compositions of matter, trademarks, discoveries, trade secrets, improvements, ideas (whether or not shown or described in writing or reduced to practice), and works of authorship, whether or not patentable, copyrightable or registrable, (i) which relate directly to the business of Employer; (ii) which relate to Employer's actual or demonstrably anticipated research or development; (iii) which result from any work performed by me for Employer; (iv) for which equipment, supplies, facilities or Confidential Information (as defined in the “Employee Confidentiality Agreement”) of Employer is used; or (v) which are developed during working hours at Employer.

3. Exception. This Agreement does not apply to an invention for which no equipment, supplies, facility or trade secret information of Employer was used and which was developed entirely on my own time, and (1) which does not relate (a) directly to the business of Employer or (b) to Employer's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by me for Employer.”

Why Is this Such a Big Deal Now?

1. We live in the “Information Age.”
2. Information is Power.
3. Competition is Fierce.
4. Kallok v. Medtronic, Inc., 537 N.W.2d 356 (Minn. 1998).

- a. Facts. Dr. Michael Kallok was a research scientist at Medtronic who signed an enforceable non-competition agreement.

He was recruited by a competitor of Medtronic. Both Medtronic and the competitor were aware of the non-competition agreement.

Despite this fact, Kallok resigned from Medtronic and began working for the competitor.

The Hennepin County District Court issued an injunction preventing Kallok from working for the competitor and concluded that the competitor had tortiously interfered with Kallok’s agreement with Medtronic. The Supreme Court upheld the injunction and (significantly) awarded damages to Medtronic and attorney’s fees against both Kallok and the competitor.

- b. Significance. If a new employer hires an employee subject to a non-competete agreement, they risk not only an injunction (losing the new employee), but also paying damages and its attorney’s fees (very unusual in the American system).

MESSAGE FOR THE DAY

DRAFT THE AGREEMENTS NOW! Have the agreement prepared now and executed when the employee is hired. Have the employees sign the agreements at the time they are employed (one day late can mean the difference between victory and defeat).

POWERFUL TOOLS TO PROTECT AND PUNISH. If you have the agreements in place, they are a powerful tool to protect you (especially since Kallok v. Medtronic).

LOOK OUT WHEN HIRING! If you are hiring new employees, get your employees to represent in writing that they are not subject to these agreements.