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MEMORANDUM

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TO: AGB

FROM: KBB

SUBJECT: LUNDEGAARD INDUSTRIES' CLAIM AGAINST WADE GUSTAFSON

DATE: 02/09/08

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**ISSUE:**

What is Lundegaard Industries' ("Lundegaard"), likelihood of success on the merits of their claim against our client, Wade Gustafson?

**BRIEF ANSWER:**

It is likely that Lundegaard will succeed. The elements to be considered in such a claim as Lundegaard's against our client, Wade Gustafson, in the instant case, are clearly set out in *Raimonde v. Van Vlerah*, 42 Ohio St. 2d 21, 25, 325 N.E.2d 544 (1975), which employed a "rule of 'reasonableness'". In doing so, they used a 3 part test: 1) a covenant not to compete which imposes unreasonable restrictions upon an employee will be enforced to the extent necessary to protect the employer's legitimate interests; 2) a covenant not to compete is reasonable if it does not impose undue hardship on the employee; and 3) a covenant not to compete is reasonable if it is not injurious to the public. *Id.* at ¶26, 325 N.E.2d 544.

In *Raimonde*, an employer sued a former employee for enforcement of a non-compete agreement. The court of common pleas granted an injunction, the court of appeals, Defiance County, reversed, and employer appealed.

In *Raimonde*, appellee. Donald Van Vlerah entered the employ of appellant, James T. Raimonde, both being doctors of veterinary medicine. *Id.* at ¶21, 325 N.E.2d 544. Raimonde had practiced in Defiance County since 1961, and Vlerah since 1972. *Id.* On January 3, 1972, Vlerah entered Raimonde's employment. On January 26, 1972, the parties signed a written contract. *Id.* The contract included a non-compete agreement. *Id.* at ¶22, 325 N.E.2d 544.

On November 24, 1972, a Vlerah 's employment with Raimonde terminated. Vlerah then

began to practice veterinary medicine in Defiance in violation of his contract with Raimonde. *Id.* Raimonde filed a complaint to prevent Vlerah from practicing veterinary medicine in violation of the contract. *Id.* The trial court upheld the validity of the contract and issued an injunction, but limited enforcement to an 18-mile radius of Defiance. *Id.* The court of appeals reversed, holding the contract an unreasonable restraint of trade, and dismissed the complaint. *Id.*

In reversing the decision of the court of appeals, the Supreme Court first sets out to reject the ‘blue pencil’ test in favor of a rule of ‘reasonableness.’ *Id.* at ¶25, 325 N.E.2d 544. This was due to the fact that the ‘blue pencil’ test precludes modification or amendment of contracts and the entire contract fails if offending provisions cannot be stricken. *Id.*

The Supreme Court then proceeded to employ the “rule of ‘reasonableness’”. *Id.* In doing so, they considered 3 elements: 1) a non-compete covenant that imposes unreasonable restrictions upon an employee will be enforced to the extent necessary to protect the employer's legitimate interests; 2) a non-compete covenant is reasonable if it does not impose undue hardship on the employee; and 3) a non-compete covenant is reasonable if it is not injurious to the public. *Id.* at ¶26, 325 N.E.2d 544. In addition, the Supreme Court in *Raimonde* states that, among other factors, one factor properly considered in a dispute over a non-compete contract is “whether the employee is possessed with confidential information or trade secrets.” *Id.* at ¶25, 325 N.E.2d 544. Although the Supreme Court does not mention this factor again in *Raimonde*, the consideration of this factor is pertinent in the instant case.

In *Raimonde*, the Supreme Court applies the rule of reasonableness in consideration of the 3 elements, and in consideration of the court of common pleas’ authority to modify the contract by affirming the court of common pleas’ discretionary decision to lower the non-compete radius from 30 miles to 18 miles, implicitly finding that this protects Raimonde’s legitimate interests, does not impose undue hardship upon Vlerah and is not injurious to the public. *Id.* at ¶28, 325 N.E.2d 544.

In *Raimonde*, the Supreme Court holds, for the first time, that a trial court may enforce a covenant ‘to the extent necessary to protect an employer's legitimate interests.’ The Supreme Court then directed that the cause be remanded to the court of common pleas, so that court may ascertain if its initial finding conforms with the test established in *Raimonde*. *Id.* The Ohio Supreme Court then

specifically empowered the court of common pleas to construct a reasonable covenant between the parties, and to grant injunctive relief, if appropriate. *Id.*

In *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d 260, 747 N.E.2d 268 (2000), an employer sued a former employee who accepted position with employer's direct competitor for breach of contract and misappropriation of trade secrets. At close of employer's evidence, the court of common pleas, Hamilton County, granted employee's motion to dismiss. Employer appealed.

Paul Stoneham worked for P&G for thirteen years. *Id.* at ¶265, 747 N.E.2d 268. As a member of worldwide teams at P&G, Stoneham developed a confidential ten-year marketing plan for one of P&G's products, participated in development of new products, and helped develop a ten-year plan for P&G's best-selling brand, Pantene. *Id.* at ¶266, 747 N.E.2d 268. Stoneham was the most knowledgeable person at P&G about the foreign marketing of P&G's hair care products. *Id.*

When he reached a certain management level at P&G, Stoneham was given the opportunity to obtain P&G stock options. *Id.* To receive the stock options, Stoneham had to sign an agreement not to compete with P&G for three years after the termination of his employment. *Id.* This agreement was voluntary, but failure to agree would have required Stoneham to forgo the stock options. Stoneham signed the non-compete agreement. *Id.*

In 1998, Stoneham decided to take a job with Alberto-Culver, a company whose products competed with P&G products to some extent. *Id.* P&G filed alleged that Stoneham had breached the covenant not to compete and that his employment with Alberto-Culver posed an immediate threat that P&G's trade secrets would be disclosed. *Id.*

The trial court in this case did not cite to the *Raimonde* factors explicitly. *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d at 270, 747 N.E.2d 268. The appeal court's review of the trial court's decision shows that the trial court also failed to implicitly use any of the *Raimonde* factors in determining the agreement's validity. *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d at 271, 747 N.E.2d 268. Yet P&G presented clear and convincing evidence that the non-compete agreement was reasonable under *Raimonde*. *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d at 271, 747 N.E.2d 268. P&G showed that Stoneham had

access to trade secrets which if divulged could hurt P&G; that the agreement he signed only limited unfair competition by prohibiting Stoneham's employment with a direct competitor; that enforcement of the agreement would not destroy Stoneham's sole means of support; and that the three-year limitation on competition was shown to be reasonable since confidential information Stoneham possessed had a useful life of three to five years. *Id.*

In addition, the appeals court held that not only was there sufficient consideration to support a covenant not to compete, as Stoneham received stock options that he exercised for a profit of \$684,000, but that continued employment alone is sufficient consideration to support a covenant not to compete. *Id.* at ¶277, 747 N.E.2d 268.

In *Valco Cincinnati, Inc. v. N & D Machining Service, Inc.*, 24 Ohio St. 3d 41, 492 N.E.2d 814 (1986), a manufacturer of parts for a commercial glue applicator sued alleging appropriation of trade secrets and seeking to enjoin defendants from manufacturing replacement parts for its products. The court of common pleas, Hamilton County, issued a permanent injunction upon defendants, and defendants appealed. The court of appeals affirmed the holding of the trial court. After allowing motion to certify the record, the case was accepted for review by Supreme Court of Ohio.

The equipment and parts manufactured by Valco include applicator heads. *Id.* at ¶42, 492 N.E.2d 814. Valco showed that it had its own engineering division to develop and test the heads and valves that it designed. *Id.* Over a period of more than twenty-four years, Valco had developed a standardization of materials, processes, dimensions, and tolerances of its products. *Id.* This information, gathered through its engineering, experimentation and expertise, Valco claimed to be its trade secret. *Id.* at ¶43, 492 N.E.2d 814.

Valco hired appellant Draginoff in 1976. *Id.* He progressed to production manager and became familiar with Valco's engineering drawings of its products, manufacturing processes, materials, manufacturing techniques, and also Valco's supplier and customer information. *Id.* Draginoff was aware of Valco's policy pertaining to each of the above; as a condition of employment, promotion and continued trust, he was expected to keep this information confidential. *Id.*

Shortly after beginning his employment, Draginoff asked Valco's president if there were any objections to Draginoff setting up a machine shop to procure some outside machine shop work.

Permission was given. *Id.* Draginoff then formed N & D Machining Service, Inc. Soon after starting in business, N & D contracted to make glue application parts for Valco. *Id.* In order to make these parts, Valco supplied N & D with its drawings, sketches and specifications, including detailed dimensions and tolerances. *Id.* In 1980, Draginoff resigned from Valco. *Id.* It was later learned that N & D had been manufacturing glue application equipment for a Valco competitor, using Valco's process, at prices below those of Valco. *Id.*

The trial court had issued an order which prohibited the production of parts interchangeable with Valco's parts, and the buying or selling of any such parts made by others. The Supreme Court in *Valco* upholds this injunction to prevent appellants from being unjustly enriched, to penalize misappropriation of trade secrets, to prevent Valco's secrets from being disclosed without its consent, and to protect Valco's investment in its proprietary information. *Id.* at ¶48, 492 N.E.2d 814.

In *Fred Siegel Co., L.P.A. v. Arter & Hadden*, 85 Ohio St. 3d 171, 707 N.E.2d 853 (1999), Fred Siegel Co., L.P.A., and Fred Siegel (collectively, "Siegel") sued attorney Karen H. Bauernschmidt and the law firm of Arter & Hadden for tortious interference with contract, breach of fiduciary duty, and misappropriation of trade secrets. The court of common pleas, Cuyahoga County, granted summary judgment to defendants. Plaintiff appealed, and the court of appeals affirmed grant of summary judgment on breach of fiduciary duty claim, and otherwise reversed and remanded. Discretionary appeal was allowed.

In *Siegel*, Bauernschmidt, an associate at the Siegel law firm, had access to client files, information regarding the identity and addresses of Siegel clients and contact persons, and fee agreements. She maintained a Rolodex contact directory at her desk including information regarding both personal and professional acquaintances. *Id.* at ¶173, 707 N.E.2d 853. In late August 1992, Arter & Hadden offered employment to Bauernschmidt. *Id.* On the day prior to her departure, Siegel instructed Bauernschmidt not to "directly or indirectly solicit" any of its clients in the future, implying that it considered its client list confidential. *Id.* at ¶174, 707 N.E.2d 853. In addition, Siegel advised Bauernschmidt not to "take any lists or copies of lists of the firms [*sic*] clients or any other listed information of the firms [*sic*] business and any of the information in the firm's possession [*sic*] dealing with said clients." *Id.* On her last day at the Siegel firm, Bauernschmidt removed the cards

contained in her Rolodex file. *Id.* Bauernschmidt testified she sent letters to persons for whom she had performed legal work while at Siegel, and she identified those persons from various sources, not excluding both her Rolodex file cards and the Siegel client list. *Id.*

The record demonstrates that the Siegel client list was maintained on a computer that was protected by a password. Hard copies of the list were stored within office filing cabinets, which were sometimes locked. Fred Siegel testified that he “probably” had told employees that the client list information was confidential and not to be removed from the office. *Id.*

The Siegel client list was sixty-three pages in length and included the names of property owners, contact persons, addresses, and telephone numbers of hundreds of clients. The extensive accumulation of property owner names, contacts, addresses, and phone numbers contained in the Siegel client list likely represents the investment of Siegel time and effort over a long period. *Id.* Arter & Hadden claimed that this list could be compiled independently of access to the Siegel client list. *Id.* at ¶182, 707 N.E.2d 853. However, in light of this lengthy and comprehensive list the Supreme Court held that the purpose of Ohio's trade secret law to maintain commercial ethics, encourage invention, and protect an employer's investments and proprietary information would be frustrated were they to except from trade secret status any knowledge or process based simply on the fact that the information at issue was capable of being independently replicated. *Id.* at ¶183, 707 N.E.2d 853.

The court of appeals had determined that the trial court erred in granting summary judgment to Bauernschmidt and Arter & Hadden on Siegel's claim of the tort of misappropriation of trade secrets and the Supreme Court affirmed the judgment of the court of appeals.

### **STATEMENT OF FACTS**

On Wednesday, November 28, 2007, Wade Gustafson, our client, a 47-year old former sales manager at Lundegaard Industries (“Lundegaard”) in Columbus, Ohio, which makes a pesticide commonly used in farming, left Lundegaard. On December 5, 2007 he went to work for Showalter Chemicals (“Showalter”), a direct competitor of Lundegaard, located in Worthington, Ohio. Wade worked for Lundegaard for over 20 years, working his way up from an assistant sales representative

to sales manager and he was Lundegaard's most successful sales representative with over 200 accounts that he serviced personally.

On the first day of Wade's employment at Lundegaard, included with all the other first day of work paperwork, was an agreement, which he signed, in which he promised that, for a period of three years after the termination of his employment with Lundegaard, he would not engage in any business within a 50-mile radius of Columbus, Ohio, that competed with the business of Lundegaard and also promised not to take any company property, including, among other things, customer lists.

At his exit interview, conducted just prior to 5:00 p.m. on November 28<sup>th</sup> Wade indicated to Gaear Grimsrud, the chief operating officer of Lundegaard, that he was going to retire and spend most of his time traveling with his wife and watching his son Scotty, a recent high school graduate and star athlete, play football in college. Gaear wished him luck but also reminded Wade that if he did want to re-enter the job market, he was bound by the terms of the non-compete agreement he signed at the outset of his employment. Wade stated that he did not remember signing such a document but that he had been told by a friend of his in the human resources department of another company, that non-compete agreements were "not worth the paper they were written on." Gaear said he was not a lawyer so he could not speak to that but it was the company's position that the agreement was enforceable.

On December 5<sup>th</sup>, Wade began work at Showalter and immediately began calling on his former clients, using a Lundegaard customer list he had copied before leaving that not only listed his personal clients but also those of the sales representatives whom he supervised. Lundegaard was called by Stan Grossman, one its clients, who told the company that he had been called upon by Wade who said he was now working for Showalter, which offered a far superior product than Lundegaard, and that he wanted Grossman to become a Showalter client. After some investigation, Lundegaard learned that Wade had visited at least 10 accounts on December 5<sup>th</sup> and told them all basically the same thing. On December 7, 2007, Lundegaard sought and received a temporary restraining order for the purpose of enforcing the non-compete agreement Wade signed. By agreement of the parties, the temporary restraining order, which usually would expire within 10 days

of issue, has been continued until February 12<sup>th</sup>, due to the court's heavy trial schedule, on which date, a hearing on a preliminary injunction will be held.

Counsel for Lundegaard has called and offered to settle by reducing the time period to one year and the territorial limit to 25 miles. Before making a recommendation to the client regarding this offer, we need to determine Lundegaard's likelihood of success on the merits.

#### **DISCUSSION:**

It is likely that Lundegaard will succeed. The elements to be considered in such a claim as Lundegaard's against our client, Wade Gustafson, in the instant case, are clearly set out in *Raimonde v. Van Vlerah*, 42 Ohio St. 2d 21, 25, 325 N.E.2d 544 (1975), which employed a "rule of 'reasonableness'". In doing so, they used a 3 part test: 1) a covenant not to compete which imposes unreasonable restrictions upon an employee will be enforced to the extent necessary to protect the employer's legitimate interests; 2) a covenant not to compete is reasonable if it does not impose undue hardship on the employee; and 3) a covenant not to compete is reasonable if it is not injurious to the public. *Id.* at ¶26, 325 N.E.2d 544.

In *Raimonde*, an employer sued a former employee for enforcement of a non-compete agreement. The court of common pleas granted an injunction, the court of appeals, Defiance County, reversed, and employer appealed.

In *Raimonde*, appellee. Donald Van Vlerah entered the employ of appellant, James T. Raimonde. Both are doctors of veterinary medicine. *Id.* at ¶21, 325 N.E.2d 544. Raimonde had practiced in Defiance County since 1961, and Vlerah since 1972. *Id.* On January 3, 1972, Vlerah entered Raimonde's employment. On January 26, 1972, the parties signed a written contract. *Id.* The contract provided, in pertinent part:

"5. The employee further agrees that upon the termination of his employment with the employer, either at the conclusion of this contract or by any other means of termination of employment, he will not accept similar employment or practice his profession in or within thirty (30) miles of the city of Defiance, Ohio, for a period of three (3) years from such termination of employment." *Id.* at ¶22, 325 N.E.2d 544.

On November 24, 1972, a Vlerah 's employment with Raimonde terminated. Vlerah then



began to practice veterinary medicine in Defiance in violation of his contract with Raimonde. *Id.* On January 11, 1973, Raimonde filed a complaint in the court of common pleas, to prevent Vlerah from practicing veterinary medicine in violation of the contract. *Id.* The trial court upheld the validity of the contract and issued an injunction, but limited enforcement to an 18-mile radius of Defiance. *Id.* The court of appeals reversed, holding the contract an unreasonable restraint of trade, and dismissed the complaint. *Id.*

In its decision to reverse the decision of the court of appeals, the Ohio Supreme Court first sets out to reject the ‘blue pencil’ test. *Id.* at ¶25, 325 N.E.2d 544. This was due to the fact that the ‘blue pencil’ test precludes modification or amendment of contracts and the entire contract fails if offending provisions cannot be stricken. Because divisible provisions sometimes contain integral parts of the agreement, ‘blue penciling’ those provisions can effectively render the contract useless. Because employers seek to ensure that provisions are not unreasonable, and therefore severed from the contract, employees may gain the benefit of overly-lenient employment restrictions. *Id.*

The Supreme Court then proceeded to employ a “rule of ‘reasonableness’.” *Id.* at ¶25, 325 N.E.2d 544. In doing so, they considered 3 elements: 1) a non-compete covenant that imposes unreasonable restrictions upon an employee will be enforced to the extent necessary to protect the employer's legitimate interests; 2) a non-compete covenant is reasonable if it does not impose undue hardship on the employee; and 3) a non-compete covenant is reasonable if it is not injurious to the public. *Id.* at ¶26, 325 N.E.2d 544. In addition, the Supreme Court in *Raimonde* states that, among other factors, one factor properly considered in a dispute over a non-compete contract is “whether the employee is possessed with confidential information or trade secrets.” *Id.* at ¶25, 325 N.E.2d 544. Although the Supreme Court does not mention this factor again in *Raimonde*, the consideration of this factor is pertinent in the instant case.

Vlerah argued that adoption of a rule of reasonableness would allow employers to dictate restraints without fear, because judges will rewrite contracts. The Supreme Court held that such a contention is without merit, as most employers who enter contracts only to protect legitimate interests, and that relatively few employment contracts reach the courts. *Id.* at ¶25, 325 N.E.2d 544.

In *Raimonde*, the Supreme Court then applies the rule of reasonableness in consideration of

the 3 elements, and in consideration of the court of common pleas' authority to modify the contract by affirming the court of common pleas' discretionary decision to lower the non-compete radius from 30 miles to 18 miles, implicitly finding that this protects Raimonde's legitimate interests, does not impose undue hardship upon Vlerah and is not injurious to the public, thus fulfilling the 3 prong test enunciated above. *Id.* at ¶28, 325 N.E.2d 544.

In *Raimonde*, the Supreme Court holds, for the first time, that a trial court may enforce a covenant 'to the extent necessary to protect an employer's legitimate interests.' The Supreme Court then directed that the cause be remanded to the court of common pleas, so that court may ascertain if its initial finding conforms to the test established in *Raimonde*. *Id.* The Supreme Court then specifically empowered the court of common pleas to construct a reasonable covenant between the parties, and to grant injunctive relief for the period of time to which Raimonde may be entitled. *Id.*

In *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d 260, 747 N.E.2d 268 (2000), an employer sued a former employee who accepted position with employer's direct competitor for breach of contract and misappropriation of trade secrets. At close of employer's evidence, the court of common pleas, Hamilton County, granted employee's motion to dismiss. Employer appealed.

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When he reached a certain management level at P&G, Stoneham was given the opportunity to obtain P&G stock options. *Id.* To receive the stock options, Stoneham had to sign an agreement not to compete with P&G for three years after the termination of his employment. *Id.* This agreement was voluntary, but failure to agree would have required Stoneham to forgo the stock options. Stoneham signed the non-compete agreement. *Id.*

In 1998, Stoneham decided to take a job with Alberto-Culver, a company whose products competed with P&G products to some extent. *Id.* P&G filed alleged that Stoneham had breached the

covenant not to compete and that his employment with Alberto-Culver posed an immediate threat that P&G's trade secrets would be disclosed. *Id.*

The trial court in this case did not cite to the *Raimonde* factors explicitly. *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d at 270, 747 N.E.2d 268. The appeal court's review of the trial court's decision shows that the trial court also failed to implicitly use any of the *Raimonde* factors in determining the agreement's validity. *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d at 271, 747 N.E.2d 268. Yet P&G presented clear and convincing evidence that the non-compete agreement was reasonable under *Raimonde*. *Proctor and Gamble Company v. Stoneham*, 140 Ohio App. 3d at 271, 747 N.E.2d 268. P&G showed that Stoneham had access to trade secrets which if divulged could hurt P&G; that the agreement he signed only limited unfair competition by prohibiting Stoneham's employment with a direct competitor; that enforcement of the agreement would not destroy Stoneham's sole means of support; and that the three-year limitation on competition was shown to be reasonable since confidential information Stoneham possessed had a useful life of three to five years. *Id.*

In addition, the appeals court held that not only was there sufficient consideration to support a covenant not to compete, as Stoneham received stock options that he exercised for a profit of \$684,000, but that continued employment alone is sufficient consideration to support a covenant not to compete. *Id.* at ¶277, 747 N.E.2d 268.

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developed a standardization of materials, processes, dimensions, and tolerances of its products. *Id.* This information, gathered through its engineering, experimentation and expertise, Valco claimed to be its trade secret. *Id.* at ¶43, 492 N.E.2d 814.

Valco hired appellant Draginoff in 1976. *Id.* He progressed to production manager and became familiar with, Valco's engineering drawings of its products, manufacturing processes, materials, manufacturing techniques, and also Valco's supplier and customer information. *Id.* Draginoff was well aware of Valco's policy pertaining to each of the above, and that, as a condition of employment, promotion and continued trust, he was expected to keep this information confidential. *Id.*

Shortly after beginning his employment, Draginoff asked Valco's president if there were any objections to his setting up a machine shop to procure some outside machine shop work. Permission was given. *Id.* He then formed N & D Machining Service, Inc. Soon after starting in business, N & D contracted to make certain glue application parts for Valco. *Id.* In order to make these parts, Valco supplied N & D with its drawings, sketches and specifications, including detailed dimensions and tolerances. *Id.* In 1980, Draginoff resigned from Valco. *Id.* It was later learned that N & D had been manufacturing glue application equipment for a Valco competitor, using Valco's process, at prices below those of Valco. *Id.*

In *Valco*, the Supreme Court points out that [R.C. 1333.51\(A\)\(3\)](#) states:

“‘Trade secret’ means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, or improvement, or any business plans, financial information, or listing of names, addresses, or telephone numbers, which has not been published or disseminated, or otherwise become a matter of general public knowledge. Such \* \* \* is presumed to be secret when the owner thereof takes measures designed to prevent it, in the ordinary course of business, from being available to persons other than those selected by the owner to have access thereto for limited purposes.” *Id.* at ¶44, 492 N.E.2d 814.

The Supreme Court further points out that Ohio has statutorily prohibited employees from disseminating or disclosing confidential matters of the employer without the knowledge and consent of the latter. [R.C. 1333.81](#) provides as follows:

“No employee of another, who in the course and within the scope of his employment receives any confidential matter or information, shall knowingly, without the consent of his employer, furnish or disclose such matter or information to any person not privileged to acquire it.” *Id.* at ¶45, 492 N.E.2d 814.

The trial court in this case issued an order which prohibited the production of parts interchangeable with Valco's parts, and the buying or selling of any such parts made by others. *Id.* at ¶48, 492 N.E.2d 814. Given that *N & D* clearly made use of Valco's confidential information contrary to the knowledge and consent of Valco, the Supreme Court in *Valco* upheld the trial court's injunction to prevent appellants from being unjustly enriched, to penalize misappropriation of trade secrets, to prevent Valco's secrets from being disclosed without its consent, and to protect Valco's investment in its proprietary information. *Id.*

In *Fred Siegel Co., L.P.A. v. Arter & Hadden*, 85 Ohio St. 3d 171, 707 N.E.2d 853 (1999), Fred Siegel Co., L.P.A., and Fred Siegel (collectively, “Siegel”) initiated this action by filing a complaint naming as defendants attorney Karen H. Bauernschmidt and the law firm of Arter & Hadden., for tortious interference with contract, breach of fiduciary duty, and misappropriation of trade secrets. The court of common pleas, Cuyahoga County, granted summary judgment to defendants. Plaintiff appealed, and the court of appeals affirmed grant of summary judgment on breach of fiduciary duty claim, and otherwise reversed and remanded. Discretionary appeal was allowed.

In *Siegel*, Bauernschmidt, an associate at the Siegel law firm, had access to client files, as well as access to information regarding the identity and addresses of Siegel clients and contact persons, and fee agreements. She maintained a Rolodex contact directory at her desk including information regarding both personal and professional acquaintances. *Id.* at ¶173, 707 N.E.2d 853. In late August 1992, Arter & Hadden offered employment to Bauernschmidt. *Id.* On the day prior to her departure, Siegel instructed Bauernschmidt not to “directly or indirectly solicit” any of its clients in the future, implying that it considered its client list confidential. *Id.* at ¶174, 707 N.E.2d 853. In addition, Siegel advised Bauernschmidt not to “take any lists or copies of lists of the firms [*sic*] clients or any other listed information of the firms [*sic*] business and any of the information in the

firm's possession [*sic* ] dealing with said clients.” *Id.* On her last day at the Siegel firm, Bauernschmidt removed the cards contained in her Rolodex file. *Id.* Bauernschmidt testified that she sent letters to persons for whom she had performed legal work while at Siegel, and that she identified those persons from various sources, not excluding both her Rolodex file cards and the Siegel client list. *Id.*

In *Siegel*, Arter & Hadden moved for summary judgment in their favor. *Id.* at ¶182, 707 N.E.2d 853. Siegel claims that Bauernschmidt and Arter & Hadden tortiously misappropriated the information contained in Siegel's client list and used it for their own economic gain. *Id.* The Supreme Court of Ohio found genuine issues of material fact to exist that precluded entry of summary judgment in favor of Arter & Hadden. *Id.* These genuine issues of material fact establish that Siegel took measures to protect this information as secret and confidential, and are as follows: the Siegel client list was maintained on a computer that was protected by a password; hard copies of the list were stored within office filing cabinets, which were sometimes locked; and Fred Siegel testified during deposition that he “probably” had told employees that the client list information was confidential and not to be removed from the office. *Id.*

The Siegel client list was sixty-three pages in length and included the names of property owners, contact persons, addresses, and telephone numbers of hundreds of clients. The extensive accumulation of property owner names, contacts, addresses, and phone numbers contained in the Siegel client list may well be shown at trial to represent the investment of Siegel time and effort over a long period. *Id.* Arter & Hadden claimed that this list could possibly be compiled independently of the Siegel client list. *Id.* at ¶182, 707 N.E.2d 853. However, in light of this lengthy and comprehensive list and the serious attempt by Siegel to keep this information confidential, the Supreme Court held that the purpose of Ohio's trade secret law to maintain commercial ethics, encourage invention, and protect an employer's investments and proprietary information would be frustrated were they to except from trade secret status any knowledge or process based simply on the fact that the information at issue was capable of being independently replicated. *Id.* at ¶183, 707 N.E.2d 853.

In *Siegel*, The court of appeals determined that the trial court erred in granting summary

judgment to Bauernschmidt and Arter & Hadden on Siegel's claim of the tort of misappropriation of trade secrets and the Supreme Court affirmed the judgment of the court of appeals in light of the preceding reasons.

In the case at bar, it is likely that Lundegaard will succeed on the merits. In order to prevail, Lundegaard must, and likely will, satisfy all three elements of the *Raimonde* test, as well as a factor properly considered in a dispute over a non-compete contract, as mentioned by the Supreme Court in *Raimonde*, and discussed as well in *Valco* and *Siegel*: “whether the employee is possessed with confidential information or trade secrets.” In addition, Lundegaard will likely succeed in showing that there was sufficient consideration to support the non-compete contract.

First, Lundegaard must satisfy the first element, that enforcement of the non-compete agreement is necessary to protect their legitimate business interests. On December 5<sup>th</sup>, Wade began work at Showalter and immediately began calling on his former clients, using a Lundegaard customer list he had copied before leaving that not only listed his personal clients but also those of the sales representatives whom he supervised. Wade was Lundegaard’s top salesman with over 200 accounts that he serviced personally, and thus Lundegaard will likely show that, with their confidential client list at his disposal and his known reputation as a fine salesman, Wade will take a large portion of clients way from Lundegaard and bring them, in effect, to Showalter, Lundegaard’s competitor.

Lundegaard must also satisfy the second element of the *Raimonde* test, which states that a non-compete covenant is reasonable if it does not impose undue hardship on the employee. As already stated, Wade was Lundegaard’s top salesman, with over 200 accounts that he serviced personally. He is therefore well-known with a good reputation as a salesman. In addition, he has been hired by Showalter. Lundegaard, therefore, will likely be able to show that the non-compete agreement will not impose *undue* hardship on Wade.

Lundegaard must also satisfy the third element of the *Raimonde* test, which states that a non-compete covenant is reasonable if it is not injurious to the public. Given that the clients serviced by Wade are in fact clients of Lundegaard, and will thus be serviced by other Lundegaard salesmen, it is likely that Lundegaard will also be able to show that the public will not be injurious to the public.

In addition, a factor properly considered in a dispute over a non-compete contract is “whether the employee is possessed with confidential information or trade secrets.” Although the Supreme Court does not mention this factor again in *Raimonde*, the consideration of this factor is pertinent in the instant case. Wade had promised not to take any company property, including customer lists. This customer list Lundegaard made serious attempts to keep confidential, yet Wade took this without consent of Lundegaard. As demonstrated in both *Valco* and *Siegel*, taking a customer list, which the courts consider company property—without the consent of the business whose list it is, and when that business has made reasonable attempts to keep said customer list confidential—constitutes the tort of misappropriation of trade secrets.

Finally, as demonstrated briefly, but plainly, in *Stoneham*, employment is sufficient consideration to support a non-compete agreement. That is, if one will sign the non-compete contract, one will receive employment: The employer receives an employee, the employee receives employment.

Having satisfied these elements, it is likely that Lundegaard will succeed on the merits of their case against our client, Wade Gustafson, because the courts consistently base their decisions concerning non-compete agreements on these elements.