NO. 45462-9-II

COURT OF APPEALS, DIVISION II
OF THE STATE OF WASHINGTON

ROBERT EMERICK,

Appellant,

v.

CARDIAC STUDY CENTER, P.S., INC.,

Respondent.

APPELLANT/CROSS-RESPONDENT'S REPLY BRIEF

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I. ARGUMENT

This Court has never held that CSC's Non-Compete is valid as a matter of public policy and now that the trial court applied the three-factor test, this Court should now hold that CSC's Non-Compete is void as a matter of law. The physician-patient relationship is personal and unique to such a degree that their communications are privileged. The relationship should not be restricted or terminated because of a company's internal politics. Moreover, Washington law clearly s upports the holding that CSC's Non-Compete has expired and this issue is moot. Even if the Non-Compete has not expired, the trial court's rewrite of CSC's Non-Compete is unreasonable in its temporal and geographic scope as these restrictions do not protect any legitimate business interest of CSC's. In fact, CSC failed to show why a non-competition agreement was necessary to protect any legitimate business interest and instead focused solely on whether it *had* business interests, such as goodwill. This was an error. Because the trial court found that CSC's Non-Compete was unreasonable and unenforceable, CSC was not the substantially prevailing party. Finally, the trial court's award of attorney fees to CSC was unreasonable given the excessive scope of CSC's work and the lack of billing discretion.

As an initial matter, CSC appears to believe that it had no burden of proof to meet. *Brief of Respondent/Cross-Appellant* at 24. However, as the moving party, CSC bore the burden of proof to demonstrate that no genuine issues of material fact existed and that CSC is entitled to judgment as a matter of law. CSC failed to meet that burden.

A. CSC's Non-Compete is moot.

There is no authority allowing the trial court to extend a non-compete agreement, such as through tolling, which occurred here.[1] Moreover, as this case dragged on, CSC's Non-Compete became moot.

A non-competition agreement expires and is not tolled by a former employee's alleged breach and attempts to enforce the non-compete past the expiration of that period are moot. *Nat'l Sch. Studios, Inc. v. Superior Sch. Photo Svc.*, 40 Wn.2d 756, 242 P.2d 756 (1952). Defendant Lien was subject to a non-competition agreement in which he agreed not to solicit, directly or indirectly, National School Studio's customers within the states of Washington, Oregon, or Idaho for a period of 18 months. *Nat'l Sch. Studios*, 40 Wn.2d at 265 – 66. During his employment with National School Studios, Defendant Lien started or assisted with a competing business and was eventually fired. *Nat'l Sch. Studios*, 40 Wn.2d at 267 – 68. He continued working for the competing business after his termination, and ultimately solicited half of his former customers away to the competing company. *Nat'l Sch. Studios*, 40 Wn.2d at 268. Th e Supreme Court of Washington held that the employer's efforts to enforce the non-compete were moot because the 18-month period would expire before its order became final. *Nat'l Sch. Studios*, 40 Wn.2d at 268.

[1] CSC appears to argue that Dr. Emerick has raised this issue for the first time on appeal. *Brief of Respondent/Cross-Appellant* at 31 – 32. This is incorrect. Dr. Emerick has strenuously opposed CSC's request to extend the length of its Non-Compete to exclude the period in which he opened his practice as permitted by the first trial court order. CP at 42 – 43, 49, 53, 56 – 57.

Similarly, CSC's Non-Compete is moot. Even if Dr. Emerick's conduct could be considered competition in violation of CSC's Non-Compete, this does not toll the non-compete. As in *National School Studios*, the restrictive covenant ran from the date of termination not from the day of compliance with the non-compete. As such, CSC's arguments regarding Dr. Emerick's alleged breach of the non-compete do not provide a basis for tolling the non-compete. *Brief of Respondent/Cross-Appellant* at 32 – 33. Dr. Emerick was terminated from CSC in September 2009. CSC did not seek any injunctive relief tolling the non-compete during any of the court proceedings. As such, enforcing the reduced four-year period found reasonable by the trial court, CSC's Non-Compete expired in November 2013, before CSC even moved for summary judgment. Even enforcing the full five-year period that the trial court found unreasonable, CSC's Non-Compete will expire in November 2014. *See also Econ. Lab., Inc. v. Donnolo*, 612 F.2d 405, 408 (9th Cir. 1979) (holding that there is substantial support among the federal courts of appeals for the proposition that it is inappropriate "to grant an injunction to enforce an agreement not to compete after the period during which the employee agreed not to compete" has expired); *Alexander & Alexander, Inc. v. Wohlman,* 19 Wn. App. 670, 688, 578 P.2d 530, *rev. denied*, 91 Wn.2d 1016 (1978) (holding that injunctive relief after the expiration of the noncompetition period would be "inappropriate and manifestly unfair" to former employees even though former employees competed throughout the noncompetition period).

Moreover, the lack of monetary remedy available to CSC does not impact this Court's analysis.[2] The Supreme Court in *National School Studios* did not condition the expiration of the non-competition agreement on the availability of a monetary remedy. There is, in fact, no remedy discussed in that case. The non-competition agreement expired and the Court simply had no remedy to provide.

CSC's citations to cases outside Washington State are inapplicable given the controlling authority issued by the Washington State Supreme Court. Additionally, CSC incorrectly argues that it cannot get the benefit of its bargain without creating a new remedy of tolling a restrictive covenant. *Brief of Respondent/Cross-Appellant* at 33 – 34. This is incorrect. CSC could have sought to stay the trial court's ruling invalidating CSC's Non-Compete during the pendency of its appeal. RAP 8.1(b)(3). Dr. Emerick used this process and obtained a stay from this Court of the trial court's order requiring him to move his practice before his appeal is decided by this Court. CSC could have also sought injunctive relief under CR 65 from the trial court prior to moving for judgment on its claims. In fact, CSC's Non-Compete provides that it is entitled to injunctive relief because monetary damages would be inadequate. CP at 658. CSC took none of these actions, but that does not

[2] CSC, as the drafter, could have included a provision for liquidated damages. *See Perry v. Moran*, 109 Wn.2d 691, 697, 748 P.2d 224 (1987) (finding liquidated damages provision valid and enforceable); *Knight, Vale & Gregory v. McDaniel*, 37 Wn. App. 366, 371 – 72, 680 P.2d 448 (1984) (holding liquidated damages provision was reasonable and that valuing harm resulting from one business from the competition of another business is difficult to estimate accurately).

invalidate the fact that CSC had remedies available to it throughout this process. That CSC chose not to take advantage of these options does not justify tolling CSC's Non-Compete such that Dr. Emerick is subject to effectively seven years of restrictions. CSC's Non-Compete is moot and this court should reverse the trial court's decision and remand with instructions to the trial court to enter an order so declaring.

B. CSC's Non-Compete violates public policy as a matter of law and this Court has never held otherwise.

This Court has never held that CSC's Non-Compete does not violate public policy.

This Court previously held that the trial court erred by not engaging in the proper analysis of whether CSC's Non-Compete was reasonable. Nowhere in this Court's prior opinion did this Court hold that CSC's Non-Compete was valid as a matter of public policy. As CSC quotes, this Court's holding was limited to stating that "Washington courts have not yet held that restrictive covenants between physicians are unenforceable....Thus, to the extent the trial court relied on authority from other jurisdictions, it erred in invalidating the covenant on public policy grounds." *Emerick v. Cardiac Study Cntr. Inc., P.S.*, 170 Wn. App. 248, 259 286 P.3d 689, *rev. denied*, 175 Wn.2d 1028 (2012); ; *Brief of Respondent/Cross-Appellant* at 18. This Court did not hold anything more than that the trial court applied the wrong standard and erred in considering authority from other jurisdictions in the absence of guidance from Washington courts. CSC has attempted to expand this limited holding into an implicit finding that its Non-Compete is reasonable and enforceable. On remand, Dr. Emerick demonstrated that even under Washington law, CSC's Non-Compete violates public policy.

For example, the court in *Alexander & Alexander* found that a relationship between an insurance broker and an insured is "often highly personal." 19 Wn App. at 687. Washington law so highly regards the physician-patient relationship that it makes all communications between them privileged. RCW 5.60.060(4); ER 501(j). Additionally, lawyers are prohibited from entering into non-compete agreements because doing so might limit clients' freedom of choice. Despite the protections given to the insurance broker-insured and attorney-client relationships, CSC would ask Courts to value the physician-patient relationship so low as to allow CSC to bar its former physicians from treating any patient, regardless of whether that patient had any contact with CSC during the physician's employment, for a period of five years. Limiting access to the person that a patient trusts to save his or her life, to cut into his or her chest, to hold his or her heart is so blatantly personal as to violate public policy. *Alexander & Alexander*, 19 Wn. App. at 687. CSC does not deny this, but rather argues that this Court's prior holding bars further consideration of this matter. CSC's position is based on an erroneous and overly expansive reading of this Court's prior decision. Doctors are not widgets and limiting access to their life-saving care is one of the clearest examples of injuring the public that one could think of in this context. This Court should hold that CSC's Non-Compete is invalid under the public policy of Washington.

C. The temporal restrictions imposed by the trial court are unreasonable and CSC cites no authority in which a Washington State court has found that a four- or five-year non-compete is reasonable.

There is no dispute that no Washington appellate court has ever approved a four- or five-year non-competition agreement. Instead, CSC appears to erroneously contend that Washington Courts have refused to enforce the temporal restrictions in non-competition agreements because of accompanying geographic restrictions. *Brief of Respondent/Cross-Appellant* at 27 – 28 ("Emerick now claims this was error, relying in large part on cases that contained noncompete agreements that were either unrestrained geographically, or covered a much broader geographic area than the two-mile restriction the trial court imposed here"). CSC appears to urge this Court to accept a temporal restriction far in excess of any published Washington appellate decision because its geographic restriction is not "unrestrained." Temporal and geographic restrictions in non-competes must stand or fail on their own. *Alexander & Alexander,* 19 Wn. App. at 686 (noting that the "*Wood* court held that the covenants were unreasonable not only as to area, but also as to time"); *Armstrong v. Taco Time Int'l, Inc.*, 30 Wn. App. 538, 544 – 45, 635 P.2d 1114 (1981) (analyzing reasonableness of geographic restriction without regard to temporal restriction).

As CSC does not dispute, no Washington appellate court has ever found that a four- or five-year restrictive covenant is reasonable. *Amazon.com*, 2012 WL 6726538, *1 – 2 (W.D. Wash. 2012) (18-month restrictive period unreasonable when Amazon failed to "explain[ ] why it selected an 18-month period," and imposed the same restrictive period in each contract regardless of individual circumstances); *Seabury & Smith, Inc. v. Payne Fin. Grp., Inc.*, 393 F. Supp. 2d 1057, 1063 (E.D. Wash. 2005) (one-year restriction on working with former clients to be reasonable as a matter of law); *Pac. Aerospace & Elecs., v. Taylor*, 295 F. Supp. 2d 1205, 1218 (E.D. Wash. 2003) (two-year restriction on solicitation of former customers to be reasonable); *Perry v. Moran*, 109 Wn.2d at 691, 703 – 04, 748 P.2d 224 (1987) ("[i]t may be that a clause forbidding service [to former clients] for a 5 year period is unreasonable as a matter of law..."); *Knight, Vale & Gregory v. Daniels*, 37 Wn. App. at 366, 371, 680 P.2d 448, *rev. denied,* 101 Wn.2d 1025 (1984) (three-year non-compete restricting accountants' ability to perform accounting services for former employer's clients reasonable); *Armstrong*, 30 Wn. App. at 538 (two and one-half years); *Alexander & Alexander*, 19 Wn. App. at 688 (finding reasonable a two-year restrictive covenant); *Cent. Credit Collection Ctrl. Corp. v. Grayson*, 7 Wn. App. 56, 60, 499 P.2d 57 (1972) (two years).

In fact, Washington Courts have repeatedly refused to enforce a five year non-competition agreement. In *Perry*, the court opined that "[i]t may be that a clause forbidding service [to former clients] for a 5 year period is unreasonable as a matter of law..." 109 Wn.2d at 703-04.[3] In *Armstrong*, the Court affirmed the trial court's decision to reduce a five-year restriction down to two-and-a-half years. 30 Wn. App. 538.

As a matter of law, there is no authority for the imposition of a four- or five-year non-compete, let alone the seven-year non-compete that is envisioned by the trial court's order. Making the error more egregious, CSC has offered no explanation for why a four, five, or seven-year non-compete is needed to protect its business interests from unfair competition by Dr. Emerick. The uncontested evidence is that the Non-Compete is a standard provision forced upon all doctors without regard to the individual situation. CSC's Non-Compete is not tailored to reasonably address the individual circumstances at work in any one case, and is overbroad in its application. Although the trial court recognized the unreasonableness of the temporal length of CSC's Non-Compete, the trial court erred in rewriting the Non-Compete for such a lengthy time period. Dr. Emerick respectfully requests that this Court find that the trial court erred in finding that a four-year temporal restriction was reasonable.

D. The trial court erred in finding that a two-mile geographic restriction was reasonable.

The trial court also erred in finding that a two-mile restriction around each of CSC's offices is reasonable. There is no evidence in the

[3] Because the employer in *Perry* did not seek damages beyond a 17 month period following the employee's termination, the Court did not reach the reasonableness of the five-year period.

record showing that such a restriction is necessary to preserve any legitimate business interest of CSC's.

A geographic restriction is reasonable if it restricts the employee only in the geographic area necessary to protect the employee's business. *Alexander & Alexander*, 19 Wn. App. at 686-87.

CSC presented no evidence of any geographic restriction was reasonable other than it does not want Dr. Emerick to provide cardiac services. CSC failed to demonstrate, for instance, whether and how its goodwill or other interests are protected by a geographic restriction. As Dr. Emerick has consistently shown, his practice's location has no relationship to CSC and does not compete with CSC's Gig Harbor location.

The uncontroverted evidence is that when Dr. Emerick searched for office space, he looked at several locations and buildings throughout the South Sound. I CP at 132. The choice that he ultimately made had nothing to do with CSC or its office locations. I CP at 132. He chose the space that was the most affordable and suitable to the design plans for his new concierge medical practice. I CP at 132. The characteristics of the building, its other tenants, its office floor plans, overall ambience and the space's suitability to the planned buildout were all taken into consideration prior to his signing a lease. I CP at 132. Dr. Emerick's practice has no signage on the building announcing his practice. I CP at 132. In fact, no one can even see Dr. Emerick's building from CSC's Gig Harbor office and no one can see CSC's Gig Harbor building from Dr. Emerick's office due to the distance between the locations and the massive trees and shrubs that exist between those distances. I CP at 132. It is not as though a CSC patient, on the way into CSC's Gig Harbor building, might notice Dr. Emerick's practice and decide to see Dr. Emerick instead. I CP at 132.

The two-mile restriction has no bearing or relationship to protecting CSC's legitimate business interests and is simply a random number that neither party asked for. The two-mile restriction is not reasonable and not enforceable.

E. CSC failed to show that its seven-year Non-Compete is necessary to protect its business or goodwill or that its restraints do not exceed what is reasonable to protect its business or goodwill.

Genuine issues of material fact exist as to whether Dr. Emerick's conduct constitutes a breach of CSC's Non-Compete or whether CSC's Non-Compete is reasonable and necessary to protect any legitimate business interest. *See Seabury & Smith*, 393 F. Supp. 2d at 1063 (finding that genuine issues of material fact existed as to whether defendants breached their restrictive covenants). However, even if this matter were decided as a matter of law, CSC's Non-Compete is unreasonable in content and scope and Dr. Emerick did not breach the Non-Compete.

CSC cites a litany of interests it believes must be protected, including its client base, referral sources, business model, goodwill, business space, and access to equipment. *Brief of Respondent/Cross-Appellant* at 19 – 20. However, CSC failed to show that its Non-Compete was necessary and reasonable to protect those interests. It is not enough to identify the existence of goodwill. CSC must show that its restrictive covenant is reasonably tailored to protect those interests. *Knight, Vale & Gregory*, 37 Wn. App. at 371 ("A covenant not to compete should be no greater in scope than is necessary to protect the business or good will of the employer") (citing *Wood*, 73 Wn.2d 307; *Cent. Credit Coll. Ctrl. Corp.* 7 Wn. App. At 60). CSC did not meet this burden.

As one Washington Court explained, non-competition agreements are not upheld to bar all competition by a former employee, only unfair competition gathered as a result of the former employee's employment:

> Restraint has been held necessary to protect a business from the unfair advantage a former employee may have by reason of personal contact with the employer's patrons or customers, acquisition of information "as to the nature and character of the business and the names and requirements of the patrons or customers" during his or her employment.

Copier Specialists, Inc. v. Gillen, 76 Wn. App. 771, 774, 887 P.2d 919 (1995) (quoting *Wood v. May,* 73 Wn.2d 307, 310, 438 P.2d 587 (1968)). Washington Courts do not permit businesses to use non-competition agreements to stifle legitimate competition. Generally, Washington Courts have found reasonable restrictions prohibiting solicitation of persons or businesses that the employer serviced during the former employee's employment. *Seabury & Smith*, 393 F. Supp. 2d at 1063; *Pac. Aerospace & Elec.*, 295 F. Supp. 2d at 1216 – 18; *Perry*, 109 Wn.2d at 700; *Racine v. Bender*, 141 Wash. 606, 607, 610 – 11; *Knight, Vale & Gregory*, 37 Wn. App. at 370; *Alexander & Alexander*, 19 Wn. App. at

687 – 88. In contrast, CSC's Non-Compete seeks to prohibit the practice of cardiac medicine of any nature by Dr. Emerick, regardless of whether it constitutes legitimate or unfair competition.

Alexander & Alexander held unreasonable a general restriction on conducting competing business. *Alexander & Alexander*, 19 Wn. App. at 675, 678 – 88. One of the restrictions at issue in *Alexander & Alexander* was a five-year prohibition on engaging "in the insurance agency or insurance brokerage business within a radius of 100 miles from the location of the office of MS at the time of closing." The Court limited the entire non-competition to prohibit just a two-year restriction on the solicitation or diversion of any of the former employer's customers for three years and a substantially reduced geographic scope. *Alexander & Alexander*, 19 Wn. App. at 687 – 88.

In *Perry*, the Court held that "[a] covenant prohibiting the former employee from providing accounting services to the firm's clients for a reasonable time is a fair means of protecting that client base." 109 Wn.2d at 700. The former employee in *Perry* was, in fact, poaching her former employer's clients. *Id.*

In *Knight, Vale, & Gregory*, this Court held that a three-year restriction on performing accounting services for clients of the former employer was reasonable because (1) it did not unduly restrain the former employees' freedom to serve clients other than the employer's clients, (2) the accountants' would be able to attract new clients using their advanced training and experience rather than just the relationships developed during their prior employment, and (3) there was no harm to the public. 37 Wn. App. at 370 – 71.

CSC's Non-Compete is more similar to that in *Alexander & Alexander* than *Perry* or *Knight*. First, CSC's Non-Compete seeks to bar Dr. Emerick from "hav[ing] *any business dealings or contracts*...with any then existing patient, customer or client (or party with whom the Corporation contracts) of the Corporation or any person or firm which has been contacted or identified by the Corporation as a potential customer or client of the Corporation." CP at 657 (emphasis added). Additionally, CSC's Non-Compete seeks to bar Dr. Emerick from treating patients who never had any relationship with CSC. As in *Alexander & Alexander* and unlike *Perry* and *Knight*, there is no requirement that Dr. Emerick have any prior contact with the patients he is barred from treating. Even if Dr. Emerick never treats a former CSC patient, CSC would ask this Court to bar him from practicing medicine within the geographic area. *Amazon.com, Inc.*, 2012 WL 6726538 at *9 (Washington Courts have been "less deferential to general restrictions on competition that are not tied to specific customers"); *See also Scott, Stackrow & Co., C.P.A.'s, P.C. v. Skavina*, 9 A.D.3d 805, 806 (N.Y. 2004) (A former employer's interest in goodwill is not legitimate if the employer seeks to bar the former employee from soliciting or providing services to clients with whom the former employee never acquired a relationship through his or her employment or if the covenant extends to personal clients recruited through the employee's independent efforts).

Second, CSC's Non-Compete also purports to apply even to persons that neither Dr. Emerick nor CSC has ever treated, barring his treatment of persons "identified by the corporation as a *potential* customer or client." CP at 657. This could operate to bar just about any person within King, Pierce, Thurston, or Kitsap Counties, regardless of whether CSC ever treated the individual or had any relationship with him or her. Although the Court in *Seabury & Smith* found reasonable a prohibition on soliciting prospective clients, that restriction was limited to "prospective clients who were solicited or serviced during employee's term of service with Plaintiff." 393 F. Supp. 2d at 1065. There is no such limitation in CSC's Non-Compete. CSC does not define "potential customer," nor does it limit the application of that definition to those that were serviced or solicited while Dr. Emerick worked for CSC.

Third, while the accountants in the *Knight* case were not barred from engaging in other types of accounting work, CSC's Non-Compete professes to bar Dr. Emerick from the **entire** "practice of cardiac medicine." CP at 657. Dr. Emerick is barred from working in his chosen field altogether.

In contrast, CSC seeks not to protect any legitimate business interests, but to stifle competition. CSC has not shown that since starting his new practice Dr. Emerick utilized CSC's client base, referral sources, staff, medical facilities, business model, or equipment at all, let alone to gain an unfair advantage. In fact, the only evidence in the record demonstrates that Dr. Emerick invested considerable time and money of his own to hire consultants to develop a one-of-a-kind concierge business model. Dr. Emerick took no equipment or staff with him from CSC and invested his own funds to improve his office space and purchase equipment. Dr. Emerick also does not rely on CSC's existing clients, nor does he trade on his time with CSC. Dr. Emerick presented evidence that his patients had either been turned away by CSC, had already left CSC, or had never heard of CSC. CSC presented no evidence that Dr. Emerick's practice cost CSC a single patient or that Dr. Emerick received any value from his time at CSC that enabled him to be especially competitive with his former employer. Dr. Emerick takes great pains to omit his time at CSC from his professional history. Moreover, the evidence shows that he has not relied on or contacted any of CSC's referral sources. CSC has not shown that its Non-Compete was necessary to protect any of its legitimate business interests. Like the employer in *Labriola*,[4] CSC unreasonably seeks to bar Dr. Emerick from employment even when he takes no unfair competitive advantage. *Labriola*, 152 Wn.2d at 847 (Madsen, J., concurring).

CSC has spent considerable effort merely showing that it *has* business interests and thus Dr. Emerick should be barred from practicing cardiac medicine. This is not the standard. Nearly every going concern has goodwill. To argue that the mere existence of goodwill justifies a highly restrictive seven-year non-compete would result in essentially

[4] *Labriola v. Pollard Grp., Inc.* 152 Wn.2d 828, 100 P.3d 791 (2004).

automatically enforcing any non-competition agreement a business can foist upon an employee.

CSC's Non-Compete is not necessary to protect its client base, referral sources, staff, equipment, or goodwill because Dr. Emerick is not using or benefitting from any of these. Dr. Emerick's location does not provide him with any competitive advantage, nor does he trade on CSC's location. There is no evidence, for example, that Dr. Emerick was able to secure his lease because of knowledge or relationships he gained while working for CSC. Dr. Emerick's office cannot be seen from CSC's Gig Harbor location and he cannot use that location to divert patients from CSC.

CSC, like Alexander & Alexander did, seeks to prohibit all competition for an excessive period of time, without consideration of what is reasonable or necessary. CSC's Non-Compete is unduly broad, unreasonable, and unenforceable. Two trial courts have now determined that CSC seeks not to prevent unfair competition, but legitimate competition. Non-competition agreements cannot be used to prohibit legitimate competition or gain an unfair competitive advantage. *See Labriola* at 847 (Madsen, J., concurring) ("By prohibiting Labriola from [performing any services that would compete with his former employer], the agreement represents an unfair attempt to stabilize [Employer's] workforce and secure its business against legitimate competition. *Postemployment restraints of this nature are never reasonable*").

F. The trial court erred in finding that CSC was the substantially prevailing party.

No Washington appellate court has ever held that an employer was the substantially prevailing party after a finding that its restrictive covenant was unreasonable and unenforceable as written. The only two decisions in Washington State to consider attorney fees in connection with a non-compete awarded fees only when the restrictive covenant was found either wholly unenforceable or reasonable and enforceable. *Labriola*, 152 Wn.2d at 838 – 39 (awarding attorney fees and costs to former employee after determining that the entire restrictive covenant failed for lack of consideration); *Perry*, 109 Wn.2d at 705 (awarding attorney fees to former employer after finding restrictive covenant reasonable, enforceable, and not subject to modification). In no case in which a court blue penciled a restrictive covenant has the appellate court awarded attorney fees. *See e.g.*, *Alexander & Alexander*, 19 Wn. App. 670; *Armstrong*, 30 Wn. App. 538.

CSC does not dispute the fact that no Washington appellate decision has granted the remedy it seeks – a finding that an employer substantially prevailed after its restrictive covenant was gutted. In fact, the cases relied upon by CSC are consistent with Dr. Emerick's position on this matter. The issue in *Piepkorn*[5] was whether a homeowners' association's construction covenants were more burdensome than the general covenants. 102 Wn. App. at 681. The court enforced the

[5] *Piepkorn v. Adams,* 102 Wn. App. 673, 10 P.3d 428 (2000)

construction covenants as written and as interpreted by the homeowners' association without revision. The court then granted the plaintiff injunctive relief enforcing those provisions. Although the court held that the plaintiff was not entitled to damages, it found that he the substantially prevailing party "in this action to enforce Bellmonte Park's restrictive covenants." *Piepkorn*, 102 Wn. App. at 686 – 87. The Court did not revise the restrictive covenants or otherwise find them unreasonable, overbroad, or unenforceable. The Court, like the Court in *Perry* found the party prevailing after first finding the restrictive covenants enforceable without revision.

Silverdale Hotel Associates[6] is similarly inapplicable as it involved a contract dispute and not injunctive relief enforcing a restrictive covenant. 36 Wn. App. at 765. Moreover, the plaintiff in that case prevailed on the contract claim and the defendant's only success was that damages were not as high as plaintiff initially sought. *Silverdale Hotel Assoc.*, 36 Wn. App. at 774.

All authority provided by both parties in this case undermines CSC's position that it substantially prevailed. The trial court found that both the temporal and geographic restrictions of CSC's Non-Compete were unreasonable and unenforceable. For virtually all of this four-plus-year litigation, CSC has maintained that its Non-Compete was enforceable and reasonable as written. As a result of Dr. Emerick's filing of this

[6] *Silverdale Hotel Assoc. v. Lomas Nettleton Co.*, 36 Wn. App. 762, 677 P.2d 773, *rev. denied*, 101 Wn.2d 1021 (1984).

action, two courts have found CSC's Non-Compete unreasonable and unenforceable and the trial court crafted a covenant that is significantly less restrictive than the one CSC drafted and sought to enforce. The filing of the suit itself forced CSC to concede that the geographic restraint it had sought to impose should at least be reduced to a five-mile radius. *See* Verbatim Report of Proceedings (VRP) (Aug. 9, 2013) at 10 – 11. Dr. Emerick also managed to reduce the restricted area by more than 97 percent based on 2008 census data. VI CP at 727 – 28. CSC sought enforcement of its Non-Compete, not the significantly rewritten provisions enforced by the trial court. CSC did not get the relief it sought and was not the substantially prevailing party.

G. The trial court properly denied CSC's attorney fees on appeal when CSC previously and unsuccessfully sought attorney fees under RAP 18.1 and was instead awarded prevailing party statutory attorney fees.

In arguing that it could not possibly have been the prevailing party prior to the trial court's latest order and thus is entitled to appellate attorney fees only now, CSC ignores the fact that it actively sought attorney fees under RAP 18.1 as the prevailing party and failed to comply with RAP 18.1(b) in doing so. CSC also ignores that this Court awarded CSC its statutory attorney fees and therefore had to have found that CSC was the prevailing party under the Non-Compete. CSC should be estopped from denying that it was not entitled to attorney fees until the trial court granted its fees below.

Statutory attorney fees are awardable only to the extent that CSC was the prevailing party on appeal. RCW 4.84.010(6) (prevailing party is entitled to statutory attorney fees); RCW 4.84.080; RCW 4.84.330 (party prevailing entitled to attorney fees on enforcement of a contract that contains attorney fee provision); *see also Snyder v. Haynes*, 152 Wn. App. 774, 783 – 84, 217 P.3d 787 (2009) (denying attorney fees under RCW 4.84.080(2) where prevailing party failed to provide a contractual or statutory basis allowing for attorney fees). This Court awarded CSC its statutory attorney fees. This Court had to first have found, then, that under the Non-Compete's attorney fee provision, CSC was the prevailing party as a result of the last appeal. As this Court's July 10, 2012, Order Amending Opinion stated, CSC failed to comply with RAP 18.1(b). When this Court amended its opinion again on August 8, no explanation was provided, yet CSC was again limited to only its statutory attorney fees. CSC did not seek discretionary review of this decision. This Court should find that CSC is not entitled to its attorney fees for the last appeal because it failed to comply with RAP 18.1(b) and this Court already found that it was the prevailing party under the Non-Compete when it awarded CSC its statutory attorney fees.

Additionally, CSC's current position is inconsistent with appellate case law. In cases where a party properly reserves the issue for attorney fees after a remand, the court of appeals can specify such in their opinion. *Valley/50th Ave., LLC v. Stewart*, 159 Wn.2d 736, 748, 153 P.3d 186 (2007) ("Neither the trial court nor the Court of Appeals awarded attorney fees and neither do we, without prejudice to future awards of fees"); *Thweatt v. Hommel*, 67 Wn. App. 135, 148, 834 P.2d 1058 (1992) ("Although we deny Hommel's request to be awarded his attorney fees on appeal, we do so without prejudice to Hommel's right to request the trial court, after remand, to award him his reasonable attorney fees for the foreclosure proceeding below") *rev. denied,* 120 Wn.2d 1016 (1992); *MB Const. Co. v. O'Brien Commerce Cntr. Assoc.*, 63 Wn. App. 151, 159, 816 P.2d 1274 (1991) ("MB's request for attorney's fees on appeal is denied without prejudice to request such fees below should it emerge as the 'prevailing party' on remand"). There is no language anywhere in this Court's opinion that would indicate that its denial was "without prejudice" or that it was leaving open any room for the trial court to grant fees. This Court's ruling was unambiguous – CSC's request for attorney fees was denied and not one of their 15 attorneys made a proper fee request. As the prevailing party in the last appeal, CSC received only its statutory attorney fees.

CSC now attempts to rewrite history and contend that its position all along was that it could not be awarded its attorney fees unless and until it prevailed on the ultimate issues of the case (which still has not happened). CSC should be judicially estopped from taking a position inconsistent with their prior filings before this Court.

"Judicial estoppel precludes a party from gaining an advantage by taking one position and then seeking a second advantage by taking an incompatible position in a subsequent action." *Johnson v. Si-Cor, Inc.*, 107 Wn. App. 902, 905, 28 P.3d 832 (2001). Although guided by a list of non-exhaustive factors in determining if judicial estoppel should apply, Washington Courts have repeatedly held that "judicial estoppel applies only if a litigant's prior inconsistent position benefitted the litigant or was accepted by the court." *Johnson v. Si-Cor, Inc.*, 107 Wn. App. at 909; *Cunningham v. Reliable Concrete Pumping, Inc.*, 126 Wn. App. 222, 230 – 31, 108 P.3d 147 (2005). In order for a court to "accept" a litigant's position, the court needs to have taken some action on the position. *See Cunningham*, 126 Wn. App. at 233 ("[T]he bankruptcy court's discharge of Cunningham's debts was an implicit acceptance of his position that he had no assets that could be liquidated for the benefit of his creditors [and he] received the benefit of a complete discharge of debts").

Here, CSC contended that it was the prevailing party and sought its attorney fees under RAP 18.1. CSC failed to comply with RAP 18.1, as this Court held, and instead received its statutory attorney fees. This Court must have found that CSC prevailed in order to award CSC its statutory attorney fees. CSC's position that no fees were available to it until the trial court's order awarding it attorney fees is inconsistent with CSC's prior positions before this Court and inconsistent with the benefits it received as a result of that prior position.

Additionally, to the extent that CSC assigns error to the calculation of its appellate expenses, CSC's request should be denied. CSC failed to identify what error was made or the value of that error. RAP 10.3(a)(6). CSC's request should be denied.

H. The trial court abused its discretion in awarding CSC nearly $300,000 in attorney fees.

If this Court does not reverse the trial court's decision that CSC was the substantially prevailing party, this Court should hold that the trial court abused its discretion in calculating the amount of fees awarded to CSC. CSC's fees are unreasonable given the inclusion of matters on which it did not prevail and matters unrelated to this litigation. In addition, CSC used at least **15** attorneys and failed to exercise billing discretion.

Washington Courts do not simply accept without question fee affidavits from counsel. *Mahler v. Szucs,* 135 Wn.2d 398, 434 – 35, 957 P.2d 632, 966 P.2d 305 (1998) (citing *Nordstrom, Inc. v. Tampourlos,* 107 Wn.2d 735, 744, 733 P.2d 208 (1987)), *overruled on other grounds*, *Matsyuk v. State Farm Fire & Cas. Ins.*, 173 Wn.2d 643, 272 P.3d 802 (2012). As the Supreme Court admonished, "the trial court, instead of merely relying on the billing records of the plaintiff's attorney, should make an independent decision as to what represents a reasonable amount of attorney fees." *Nordstrom*, 107 Wn.2d at 744.

CSC's citation to Ninth Circuit case law accepting without question a fee statement is inapplicable. *Brief of Respondent/Cross-Appellant* at 49 (citing *Moreno v. City of Sacramento*, 534 F.3d 1106, 1112 (9th Cir. 2008)). Moreover, the Ninth Circuit's deference to the calculation of reasonable attorney fees stemmed from the assumption that "lawyers are not likely to spend unnecessary time on contingency fee cases in the hope of inflating their fees. The payoff is too uncertain, as to both the result and the amount of the fee." *Moreno*, 534 F.3d at 1112. CSC did not handle this matter on a contingency fee basis and the Ninth Circuit's analysis is inapplicable.

As laid out specifically in Dr. Emerick's Appellant's Brief, CSC's fees were excessive, duplicative, and inappropriate. The trial court accepted without question all of CSC's billing, regardless of its unreasonableness or whether the fees were related to this litigation. The specific reasons for the trial court's error is laid out in Dr. Emerick's opening brief and there is no reason to rehash them. It is worth noting that although CSC fought the reasonableness of CSC's $41,296.75 in fees through the date of the December 3, 2010 judgment, it now claims it was reasonable to have spent **$167,889.00** in fees, or **405 percent more** than the amount of fees that the trial court found reasonable for Dr. Emerick. Additionally, to the extent that CSC attempts to allege reasonable billing practices because of write-offs, it should be noted that CSC wrote off less than $6,300, which amounts to **two percent** of its nearly $300,000 fee bill. This does not demonstrate billing discretion.

CSC did not take this matter on a contingency basis and is not entitled to any presumption that its fee request is reasonable. CSC and its fifteen attorneys did not exercise billing discretion and is attempting to foist onto Dr. Emerick its excessive bill of nearly a third of a million dollars. This Court should hold that the trial court abused its discretion by awarding CSC attorney unreasonable attorney fees.

I. Dr. Emerick requests attorney fees and costs on appeal.

In the event that this Court holds that Dr. Emerick is the prevailing party, he is entitled to attorney fees under RAP 18.1(b) and the Non-Compete's attorney fee provision. In the cases cited by CSC as a supposed basis for denying Dr. Emerick prevailing party attorney fees, there was not yet a prevailing party or there was no contractual basis for attorney fees. *Brief of Respondent/Cross-Appellant* at 49; *Satomi Owners Ass'n v. Satomi*, 167 Wn.2d 781, 817 – 18, 225 P.3d 213 (2009) (no prevailing party); *Belfor USA Grp., Inc. v. Thiel*, 160 Wn.2d 669, 670, 160 P.3d 39 (2007) (no prevailing party); *Landberg v. Carlson*, 108 Wn. App. 749, 758, 33 P.3d 406 (2001) (no basis for attorney fees), *rev. denied*, 146 Wn.2d 1008 (2002). These cases are inapplicable to the extent that this Court holds that Dr. Emerick is the prevailing party.

II. CONCLUSION

For these reasons, Dr. Emerick requests that this Court hold that non-competition agreements involving doctors are void as a matter of public policy. In the alternative, this Court should hold that CSC's Non-Compete is overbroad and violates public policy. This Court should also hold that the trial court erred in imposing an unreasonable temporal and geographic restriction on Dr. Emerick. This Court should also hold that the trial court erred in finding that CSC was the substantially prevailing party when neither party obtained the relief they sought and Dr. Emerick obtained substantially more relief than CSC by reducing the restricted area by 97 percent. Finally, Dr. Emerick requests that this Court hold that the trial court abused its discretion in awarding CSC's excessive fees and costs. This Court should grant Dr. Emerick an award of attorney fees and remand this case to the superior court for an award in Dr. Emerick's favor of his attorney fees, as the prevailing party.

RESPECTFULLY SUBMITTED this 30th day of April, 2014.

EISENHOWER CARLSON, PLLC

By: ______________________

Stuart C. Morgan, WSBA #26368
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Attorneys for Appellant

CERTIFICATE OF SERVICE

The undersigned certifies under the penalty of perjury under the laws of the State of Washington that I am now and at all times herein mentioned a resident of the State of Washington, over the age of eighteen years, not a party to or interested in the above-entitled action, and competent to be a witness herein.

On the date given below, I caused to be se rved the foregoing document on the following persons and in the manner listed below:

Stephanie Bloomfield Valarie Zeeck Gordon Thomas Honeywell, LLP 1201 Pacific Ave., Suite 2100 Tacoma, WA 98402	☐ U.S. First Class Mail, postage prepaid ☐ Via Legal Messenger ☐ Overnight Courier ☑ Electronically via email ☐ Facsimile ☑ Hand Delivery

DATED this 30th day of April, 2014 at Tacoma, Washington.

Cindy C. Rochelle

Cindy C. Rochelle
Legal Assistant to Chrystina Solum

APPENDIX A

2012 WL 6726538
Only the Westlaw citation is currently available.
United States District Court, W.D. Washington, at Seattle.

AMAZON.COM, INC., Plaintiff,
v.
Daniel A. POWERS, Defendant.

No. C12–1911RAJ. | Dec. 27, 2012.

Attorneys and Law Firms

Jonathan M. Lloyd, Ladd B Leavens, Davis Wright Tremaine, Seattle, WA, for Plaintiff.

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Opinion

ORDER

RICHARD A. JONES, District Judge.

I. INTRODUCTION

***1** This matter comes before the court on the motion of PlaintiffAmazon.com, Inc. ("Amazon") for a preliminary injunction against Defendant Daniel Powers. Dkt. # 11. For the reasons stated below, the court GRANTS the motion in part and DENIES it in part. The court enters a limited preliminary injunction in Part IV of this order.

II. BACKGROUND

A. Mr. Powers Worked at Amazon for Two Years.

Amazon hired Mr. Powers in mid-2010 to serve as a vice-president in its Amazon Web Services ("AWS") division. Unlike the consumer-targeting online shopping services for which Amazon initially became known, AWS caters to businesses. Mr. Powers was responsible for sales of Amazon cloud computing services. His customers were businesses who wanted to use Amazon's vast network of computing resources for their own software development, data storage, web site hosting, and the like. Mr Powers was a Washington resident based at Amazon's Seattle headquarters, although he traveled extensively for his job

Mr. Powers left Amazon effective July 1, 2012. No one disputes, however, that the last day on which he had access to any internal Amazon information was June 18, 2012. Powers Decl. (Dkt.# 16) ¶¶ 15–16. When he left Amazon, he took no documents in paper or electronic form. *Id.* ¶ 16. There is no evidence that, at the time of his departure, he had specific plans to work elsewhere.

B. Mr. Powers Signs Amazon's Noncompetition Agreement.

When Mr. Powers started working at Amazon, he signed a "Confidentiality, Noncompetition and Invention Assignment Agreement ." Selipsky Decl. (Dkt.# 6), Ex. B ("Agreement"). The Agreement has four components that bear on this dispute.

The first component is a broad prohibition against Mr. Powers' disclosure of what the Agreement deems "Confidential Information." Confidential Information includes, but is not limited to, the identity of Amazon's customers, "data of any sort compiled by [Amazon]," including marketing data and customer data, techniques for identifying prospective customers and communicating with prospective or current customers, current or prospective marketing or pricing strategies, plans for expansion of products or services, and "any other information gained in the course of the Employee's employment ... that could reasonably be expected to prove deleterious to [Amazon] if disclosed to third parties...." Agr. ¶ 2(a)(i)-(xi). Once an employee learns "Confidential Information," he can never disclose it to anyone. Agr. ¶ 2(b) (i). The only relevant exception is for information that is in the public domain. Agr. ¶ 2(b)(ii).

The second component of the Agreement is a ban on Mr. Powers doing business with Amazon's customers or prospective customers for 18 months after his departure from Amazon. Agr. ¶ 2(c)(ii). The ban applies in any business relationship with an Amazon customer where Mr. Powers would provide a similar product or service to one that Amazon provides. *Id.* More broadly, the ban applies to any relationship with an Amazon customer where the relationship "would be competitive with or otherwise deleterious to the Company's own business relationship or anticipated business relationship" with the customer. *Id.*

***2** The third component is an 18-month ban on Mr. Powers working in any capacity that competes with Amazon. The ban prevents him from offering a product or service in any "retail market sector, segment, or group" that Amazon did business with or planned to do business with prior to his last day at Amazon, provided that the product or service he offers is "substantially the same" as one that Amazon provides. Agr. ¶ 3(c)(iii). Taken literally, the ban has extraordinary reach: it would, for example, prevent Mr. Powers from working for a bookseller, even though he had nothing to do with Amazon's book sales while he worked there.

The fourth component is a 12–month ban, measured from Mr. Powers' last day of employment, on hiring or employing former Amazon employees. Agr. ¶ 3(b)

When Mr. Powers left Amazon, he received a substantial severance payment and signed a severance agreement. The severance agreement reiterates his obligations under the Agreement, but changes none of them. Selipsky Decl., Ex. C. Amazon insists that it made the severance payment to reinforce the Agreement, but it offers little evidence to support that claim. It is just as likely that it paid Mr. Powers to settle disputes over his termination and Amazon stock he would have received if he had kept his job

C. Mr. Powers Started Work at Google Three Months After He Left Amazon.
Google, Inc., hired Mr. Powers in September 2012 to work as its Director of Global Cloud Platform Sales at its Mountain View, California headquarters. Powers Decl., Ex C. As a result of this litigation, he now uses the title "Director, Google Enterprise," Nair Decl. (Dkt.# 17) ¶ 3, and he has agreed not to use a title that refers to cloud computing until the end of 2012. Petrak Decl. (Dkt.# 18), Ex. D.

Although Mr. Powers job at Google will resemble his job at Amazon in some respects, the extent of that similarity is difficult to gauge on this record. The parties agree that part of Mr. Powers' job will be to oversee sales of Google products that do not compete with AWS offerings. In part, however, Google intends that he oversee sales of its cloud computing services. Amazon has pointed to three specific Google products (Google App Engine, Google Cloud Storage, and Google Compute Engine) that compete with various AWS products. Selipsky Decl ¶¶ 5, 23, 28–30. Amazon has provided relatively little information, however, that would permit the court to assess the nature of that competition. On this record, the court can only say that Google has a variety of cloud services that it hopes to sell in approximately the same market in which AWS operates. The parties dispute, for example, whether Google App Engine competes with any AWS product. There is little evidence that would permit the court to assess the extent to which Mr. Powers' experience marketing Amazon's products would be useful in marketing Google's competing products. According to Mr. Powers, Google's cloud services are sufficiently distinct from Amazon's that his experience with Amazon services will be of little use to him at Google. Powers Decl. ¶¶ 22–25.

D. Google Has Temporarily Restricted Mr. Powers' Cloud Computing Work.
***3** Before he began work on September 24, Google sent Mr. Powers a written job offer. The offer acknowledged his prior employment and imposed several restrictions. It stated that he was never to use or disclose any "confidential, proprietary, or trade secret information" of any prior employer. Powers Decl., Ex. C. It also restricted him from cloud computing work for his first six months at Google:

> [D]uring the first six months of your employment with Google, your activities will not entail participation in development of, or influencing, strategies related to product development in the areas of cloud compute, storage, database or content delivery networks products or services, other than to provide those involved in such matters with publicly available market research or customer feedback regarding Google's existing products generated after you commence work at Google.

Id. It also prevented him from working with his Amazon customers:

> During the first six (6) months from your last date of employment with your current employer, you and Google also agree that you will not participate, directly or indirectly, in sales or marketing to any customers of your prior employer that, to the best of you[r] memory, you had material direct contact or regarding whom you reviewed confidential information of your prior employer.

Id. It prohibited him from being "directly or indirectly involved in the hire of any current or former employee of your prior employer" for the twelve months following his departure from Amazon. *Id.*

When Amazon discovered that Mr. Powers had begun working at Google, it began discussions with Google about his new job. Google voluntarily disclosed Mr. Powers new responsibilities as well as the restrictions it had already imposed on his employment.

Google's voluntary restrictions did not satisfy Amazon. It sued Mr. Powers for breach of the Agreement (and the severance agreement) and violation of Washington's version of the Uniform Trade Secrets Act ("Trade Secrets Act," RCW Ch. 19.108). It also raised a claim for a breach of the common law duties of confidentiality and loyalty, although it does not mention that claim in the motion before the court. Amazon first sued in King County Superior Court and sought a temporary restraining order. Mr. Powers removed the case to this court in late October, before the state court took any action.

After the case arrived here, the parties negotiated in an attempt to reach an agreement that would permit them to fully brief a motion for a preliminary injunction, rather than battling over an expedited temporary restraining order. They ultimately agreed that, until the end of 2012, Mr. Powers would comply with the terms of Google's offer letter, that he would refrain from sales, marketing, or strategy for a specific list of Google products and services, that he would not solicit Amazon Web Services customers who he worked with or about whom he had confidential information, and that his title at Google would not refer to cloud computing. [1] Petrak Decl., Ex D. Mr. Powers offered to participate in expedited discovery in advance of a preliminary injunction motion. *Id.* Amazon refused. *Id.*

*4 Amazon asks for a five-part injunction. Proposed Injunction (Dkt .# 11–1) at 7–8. It would prohibit Mr Powers from disclosing Amazon's confidential information or trade secrets. *Id.* at 7. It would prevent him from engaging in "any activity that directly or indirectly supports any aspect of Google's cloud computing business that competes with Amazon's cloud computing business," including but not limited to the three specific Google products that allegedly compete with Amazon cloud products. *Id.* He would not be able to solicit "any customer or prospect of Amazon's cloud computing business with whom he had direct contact or regarding whom he received confidential information while employed by Amazon." *Id.* He would not be able to solicit or recruit any "current Amazon employees." *Id.* Finally, the injunction would require him to return anything that he took from Amazon.

III. ANALYSIS

The court may issue a preliminary injunction where a party establishes (1) a likelihood of success on the merits, (2) that it is likely to suffer irreparable harm in the absence of preliminary relief, (3) that the balance of hardships tips in its favor, and (4) that the public interest favors an injunction. *Winter v Natural Resources Defense Council, Inc.*, 555 U.S. 7, 20, 129 S.Ct. 365, 172 L.Ed.2d 249 (2008). A party can also satisfy the first and third elements of the test by raising serious questions going to the merits of its case and a balance of hardships that tips sharply in its favor. *Alliance for the Wild Rockies v Cottrell*, 632 F.3d 1127, 1131 (9th Cir.2011). [2]

With this standard in mind, the court quickly eliminates two aspects of the injunction Amazon requests. The first is a prohibition on Mr. Powers "[s]oliciting or recruiting any current Amazon employees." [3] Proposed Injunction (Dkt.# 11–1) at 7. There is no evidence that Mr. Powers has attempted to recruit Amazon employees. There is no evidence that he intends to do so. Google has already forbidden him to do so for the first 12 months following his departure from Amazon. This is, probably not coincidentally, the same 12–month restriction the Agreement imposes on Mr. Powers. On this record, no one could conclude that it is likely that Mr. Powers will solicit Amazon employees, and no one could conclude that Amazon will suffer any harm, much less irreparable harm.

Similarly, the court cannot impose an injunction that requires Mr. Powers to return all Amazon "property, documents, files, reports, work product, and/or other materials...." Proposed Injunction (Dkt.# 11–1) at 8. There is not a shred of evidence that Mr. Powers has any Amazon documents or anything else belonging to Amazon. Mr. Powers denies that he took anything from Amazon when he left. Powers Decl. ¶ 16. Amazon has not even raised serious questions going to the merits of this claim.

A. Amazon is Not Likely to Succeed on the Merits of Its Claims Regarding Disclosure of Its Confidential Information or Trade Secrets.

*5 The court's observation that there is no evidence that Mr. Powers took any documents from Amazon is a good place to begin its evaluation of the proposed injunction's restrictions on disclosure. If Mr. Powers took any confidential or trade secret information from Amazon, he took it in his memory alone.

The sole evidence Amazon offers to support its claim that Mr. Powers remembers its confidential information is the declaration of Adam Selipsky, Mr. Powers' supervisor at Amazon. Selipsky Decl. ¶¶ 9–17. Although Mr. Selipsky asserts that Mr. Powers "knows" things about Amazon, he does not acknowledge that he can only speculate about what Mr. Powers knows now, more than six months after the last day he had access to any internal Amazon information. Amazon declined the opportunity to engage in discovery that would have at least allowed it to determine what Mr. Powers still knows.

Mr. Selipsky shows that it is likely that Mr. Powers does not know much of the "secret" information Amazon is concerned about. Mr. Selipsky cannot be certain that Mr. Powers *ever* knew some of that information. For example, he contends that Mr. Powers' knowledge about Amazon customers is not limited to customers with whom he had contact, because he had "access to Amazon's confidential and highly detailed customer relationship management database " Selipsky Decl. ¶ 12. Mr. Selipsky does not say that Mr. Powers ever used this database. He does not explain how, even if Mr. Powers used the database, he could remember data he gleaned from it at least six months ago. He declares that Mr. Powers received a weekly report with "hundreds of pages worth of detailed business statistics for AWS as a whole and for its individual products and services...." *Id.* ¶ 15. It is not likely that Amazon will prove at trial that Mr. Powers remembers more than a sliver of the information contained in hundreds of pages.

It is likely that Mr. Powers remembers something from his time at Amazon. He no doubt remembers many of the customers with whom he dealt directly, and probably remembers significant details of the relationships between those customers and Amazon. He probably remembers more, but the court declines to speculate. Amazon had both the burden to provide evidence of what Mr. Powers knows and the opportunity to take discovery to get additional evidence. That it has not done so, even as Google and Mr. Powers have given ample time to pursue discovery by voluntarily imposing virtually every restriction Amazon seeks in its injunction, is a damaging blow to Amazon's effort to demonstrate a likelihood of success on the merits.

Not only does the court not know what Mr. Powers remembers, the court does not know whether what he remembers is useful. AWS apparently conducts "formal operations planning processes" every six months, during which AWS departments give "detailed presentations" on plans, strategy, and budget. Selipsky Decl. ¶ 16. Amazon excluded Mr. Powers from the AWS meetings that happened this past summer. Powers Decl. ¶ 15. Assuming that Mr. Powers attended the meetings six months prior (there is no direct evidence that he did), that means that the strategic information Mr. Powers acquired, if he remembers it, is at least a year old. Mr. Selipsky emphasizes weekly emails and reports that Mr. Powers received (Selipsky Decl. ¶ 17), which serves equally well to emphasize that Mr. Powers has had no access to this weekly material for at least 27 weeks. Perhaps Amazon's cloud computing business is structured so that even information that is as much as a year old remains competitively sensitive, but again, the court can only speculate. Putting aside Mr. Powers' relationships with Amazon customers, Amazon has provided no compelling evidence that Mr. Powers still remembers competitively sensitive information he learned at Amazon.

*6 Relying on this hazy evidence of what Mr. Powers knows, Amazon invokes the Agreement's non-disclosure provisions and the Trade Secrets Act to prevent Mr. Powers from revealing his knowledge. For several reasons, Amazon is not likely to succeed in this effort, at least on the record before the court.

Amazon is not likely to prevail on its trade secret claim. First, with the possible exception of confidential information relating to its cloud computing customers, Amazon has not identified any trade secrets that Mr. Powers currently knows. *See Ed Nowogroski Ins., Inc. v. Rucker,* 137 Wash.2d 427, 971 P.2d 936, 942 (Wash.1999) ("A plaintiff seeking damages for misappropriation of a trade secret ... has the burden of proving that legally protectable secrets exist."). Amazon did not ask to file any evidence under seal, suggesting that it believes the court will divine what information is a trade secret from Mr. Selipsky's public declaration. Having scoured that declaration, the court is unable to do so. The court acknowledges that it is likely that Mr. Powers learned information that would qualify as a trade secret while he was at Amazon. *See* RCW § 19.108.010(4) (defining trade secret as a information that derives "independent economic value" from being neither known nor readily ascertainable and that is subject to reasonable efforts to maintain its secrecy). But if there is trade secret information that Mr. Powers could still be expected to know, Amazon has not identified it.

The possible exception is trade secret information about Amazon's customers. Mr. Powers admits that he worked closely with 33 AWS customers. Powers Decl. ¶ 21. The *identity* of those customers is likely not a secret. Mr. Powers' unrebutted evidence shows that Amazon publicly identifies all of those entities as Amazon customers. *Id.* Although a customer list can be a trade secret, *see Ed Nowogroski Ins.*, 971 P.2d at 440, Amazon has not identified a customer list or subset of a customer list that qualifies as a trade secret. It is possible, however, that Mr. Powers remembers trade secret information about Amazon's relationships with those customers. In contrast to the enormous sets of AWS data that Amazon speculates Mr. Powers still remembers, it is far more likely that he remembers information pertaining to these relatively few customers.

Even if Mr. Powers knows trade secret information about Amazon's relationship with a few customers, Google has not identified what that information is. As the court will discuss later, Washington law permits noncompetition agreements that prevent an employee from trading unfairly on customer relationships he or she built before leaving employment. An employer cannot weave a similar restriction from a nondisclosure agreement or the Trade Secret Act without identifying confidential or trade secret information with sufficient specificity. Amazon has failed to do so here. Indeed, Amazon has not identified even one of the customers about which it is so concerned, much less any specific confidential information Mr. Powers knows about that customer.

*7 Amazon's claims based on the nondisclosure clauses of the Agreement fail for the same reasons as its trade secret claim. Amazon has not discharged its burden to identify confidential information that Mr. Powers *still* knows and is still competitively useful.

Even if Amazon had sustained its burden to identify confidential or trade secret information that Mr. Powers knows, it would still need to prove a threat of irreparable harm. Evidence of what Mr. Powers knows is not enough; Amazon also needs evidence that Mr. Powers is likely to disclose it. That Mr. Powers knows something is not proof that he will use that knowledge at Google. Google has already forbidden him to ever use Amazon's confidential information. Amazon's counsel conceded at oral argument that Amazon has no evidence that Mr. Powers has disclosed anything in the nearly three months since he began working at Google. Once Google lifts its self-imposed restrictions on Mr. Powers' work with its cloud computing products, Mr. Powers may have more opportunity to use what he knows about Amazon. It is that possibility that garners much of Amazon's attention. Amazon has generally failed to point to anything specific that Mr. Powers knows that he is likely to disclose at Google. It instead asserts that virtually everything Mr. Powers knows is confidential and that because of the nature of his job at Google, he must inevitably use or disclose that knowledge in his work there. Mr. Powers decries Amazon's approach as an impermissible "inevitable disclosure" argument.

Amazon has not proffered evidence from which the court can conclude that it is likely that Mr. Powers will "inevitably disclose" Amazon's confidential information. The parties debate whether Washington has ever recognized inevitable disclosure as a viable basis for a trade secret or breach of confidentiality claim. On this record, that debate is largely beside the point. The crux of an inevitable disclosure argument in this context is a showing that an employee's new job so closely resembles her old one that it would be impossible to work in that job without disclosing confidential information. Amazon has not made that showing here. It has pointed to a host of at least superficial similarities between Mr. Powers' old job and his new one, including a set of superficial similarities between Google's App Engine, Cloud Storage, and Compute Engine services and comparable AWS offerings. This effort falls short of convincing the court that Mr. Powers cannot do his new job without relying on Amazon's confidential information.

The court emphasizes the high bar for an inevitable disclosure argument for two reasons. First, if an employer cannot make a detailed showing of similarity between an employee's new job and old job, then it can hardly argue that disclosure is inevitable. Amazon's inevitable disclosure argument fails in this case for at least that reason. More importantly, however, an employer may lawfully prohibit an employee from *ever* disclosing its confidential information. Were inevitable disclosure as easy to establish as Amazon suggests in its motion, then a nondisclosure agreement would become a noncompetition agreement of infinite duration. As the court will now discuss in its analysis of the noncompetition clauses of the Agreement, Washington law does not permit that result.

B. With the Exception of Restrictions on Work with Former Customers, Amazon is Not Likely to Succeed on the Merits of Its Effort to Enforce the Noncompetition Clauses in the Agreement.

***8** The Agreement contains a choice-of-law clause selecting Washington law, under which an agreement that restricts a former employee's right to compete in the marketplace is enforceable only if reasonable. The court will consider Mr. Powers' effort to avoid the choice-of-law clause in Part III.C. For now, the court applies Washington law, under which a court deciding whether a noncompetition agreement is reasonable must consider three factors:

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

Perry v. Moran, 109 Wash.2d 691, 748 P.2d 224, 228 (Wash.1987). If a court finds a restraint unreasonable, it can modify the agreement by enforcing it only "to the extent reasonably possible to accomplish the contract's purpose." *Emerick v Cardiac Study Ctr., Inc.,* 170 Wash.App. 248, 286 P.3d 689, 692 (Wash.Ct App.2012). Among other things, the court can reduce the duration of an unreasonably long anticompetitive restriction. *See, e.g., Perry,* 748 P.2d at 231 ("It may be that a clause forbidding service [to former clients] for a 5–year period is unreasonable as a matter of law...."); *Armstrong v. Taco Time Int'l, Inc.,* 30 Wash.App. 538, 635 P.2d 1114, 1118 19 (Wash Ct App.1981) (cutting five-year restriction to two and a half years). In any case, the court should protect an employer's business only "as warranted by the nature of [the] employment." *Emerick* 286 P.3d at 692.

Applying these principles, Washington courts have typically looked favorably on restrictions against working with an employee's former clients or customers. In *Perry,* the court upheld a 20–accountant firm's noncompetition agreement preventing a departing employee from working with her former clients for about a year and a half after she left the firm.[4] 748 P.2d at 224. The court recognized the employer's "legitimate interest in protecting its existing client base," and rejected the notion that lesser restrictions, like one that would only prohibit the former employee from soliciting (as opposed to working with) former clients, would be adequate to protect that interest. *Id.* at 229. Generally speaking, time-limited restrictions on business with former clients or customers survive scrutiny in Washington. *See, e.g., Knight, Vale & Gregory v. McDaniel,* 37 Wash.App. 366, 680 P.2d 448, 451–52 (Wash.Ct.App.1984) (declining to invalidate three-year restriction on accountant working with former clients); *Pac. Aerospace & Elecs. ., Inc. v. Taylor,* 295 F.Supp.2d 1205, 1218 (E.D.Wash.2003) (finding two-year restriction on solicitation of former customers to be reasonable as a matter of law); *Seabury & Smith, Inc. v. Payne Fin. Group, Inc.,* 393 F.Supp.2d 1057, 1063 (E.D.Wash.2005) (finding one-year restriction on working with former clients to be reasonable as a matter of law); *see also Labor Ready, Inc v. Williams Staffing, LLC,* 149 F.Supp.2d 398, 408 (N D.Ill.2001); (applying Washington law, upholding one-year ban on working with former customers).

***9** Washington courts have been more circumspect when considering restrictions that would prevent an employee from taking on any competitive employment. These general restrictions on competition are more suspect than mere bans on working with former clients or customers. *Perry,* 748 P.2d at 230. Courts will in some circumstances enforce general noncompetition restrictions when they apply only in a limited geographical area. *See, e.g. Emerick,* 286 P.3d at 693–95 (remanding for reconsideration of necessity of fiveyear ban on competitive employment in a single county); *Hometask Handyman Servs., Inc. v. Cooper,* No. C07–1282RSL, 2007 U.S. Dist. LEXIS 84708, at *10–11, 2007 WL 3228459 (W.D.Wash. Oct.30, 2007) (granting injunction against former franchisee based on general competition restriction, but reducing area from 100–mile radius to 25–mile radius); *see also Labor Ready,* 149 F.Supp.2d at 408 (N.D.Ill.2001) (upholding one-year general bar on competition within 10–mile radius of former employer). Courts have also declined to enforce even geographically limited general restrictions on competition. *See A Place for Mom, Inc. v. Leonhardt,* No. C06 457P, 2006 U.S. Dist. LEXIS 58990, at *6–7, 13 14, 2006 WL 2263337 (W.D.Wash. Aug.4, 2006) (declining to issue injunction based on general restriction on competitive employment).

When a noncompetition agreement is targeted at a competing business, rather than an individual employee, specific circumstances can justify a general bar on competition. For example, in *Oberto Sausage Co. v. JBS S.A.*, C10-2033RSL, 2011 U.S. Dist. LEXIS 33077, 2011 WL 939615 (W.D.Wash. Mar. 11, 2011), the court considered a meat retailer's request for a pre-arbitration injunction against a Brazilian meat processor who had formerly supplied meat exclusively to the retailer. In that case, the retailer had worked closely with the Brazilian processor to teach its proprietary beef jerky manufacturing process. *Id.* at *3. When one of its chief competitors purchased the Brazilian processor, the court enforced a general restriction on competition within the United States, preventing its competitor from "taking a free ride on its substantial investment in training [Brazilian] employees and upgrading the [Brazilian plant] with equipment plaintiff claims it developed through its confidential research and development." *Id.* at * 18 The court imposed the injunction only for the length of time it took the parties to present their dispute to an arbitrator. *Id.* at *22. Similarly, in *Armstrong,* the court upheld a restriction on a former franchisee opening competing restaurants near the franchisor's restaurants, but it cut the five-year duration of the restriction in half. 635 P.2d at 1118- 19.

The court distills a few general principles from these cases. First, Washington courts are relatively deferential to employers in enforcing agreements restricting a former employee's work with the employer's clients or customers. Courts are less deferential to general restrictions on competition that are not tied to specific customers. An employer can demonstrate that more general restrictions are necessary, but can do so only by pointing to specific information about the nature of its business and the nature of the employee's work. Finally, although courts are somewhat deferential about the duration or geographic extent of noncompetition agreements, they will readily shorten the duration or limit the geographic scope, especially where the employer cannot offer reasons that a longer or more expansive competitive restriction is necessary. With these principles in mind, the court considers the Agreement's 18–month restriction on working with former Amazon customers and its 18–month general noncompetition clause.

***10** The Agreement passes muster under Washington law to the extent it seeks to prevent Mr. Powers from working with his former Amazon customers. Mr. Powers, no less than the employees in *Perry, Knight,* and in other Washington cases, competes unfairly with Amazon to the extent he attempts to trade at Google on customer relationships he built at Amazon. The reasonable duration of that restriction, however, is a matter of dispute. This is not a case where Mr. Powers seeks to leap from Amazon immediately to Google with his former customers in tow. He stopped working with Amazon customers more than six months ago. There is no evidence he has had contact with any of them since then. There is no direct evidence that he intends to pursue business with any of them. The only indirect evidence that he has interest in contacting his former customers is that he has chosen to fight Amazon's efforts to enforce the Agreement. Although the personal aspects of his relationships with his former customers might be expected to endure for more than six months, they might just as well extend even beyond the 18–months that the Agreement provides. Amazon has not explained why it selected an 18–month period, nor has it disputed Mr. Powers' suggestion that the Agreement he signed is a "form" agreement that Amazon requires virtually every employee to sign. Because Amazon makes no effort to tailor the duration of its competitive restrictions to individual employees, the court is not inclined to defer to its one-size-fits-all contractual choices. Amazon has not convinced the court that the aspects of Mr. Powers' relationships with customers that depend on confidential Amazon information are still viable today. On this record, the court finds it would not be reasonable to enforce the Agreement's customer-based restrictions for longer than nine months from the last date on which Mr. Powers had access to Amazon's information.

The Agreement's general noncompetition clause, in contrast to the clause targeting Amazon customers, is not reasonable. Amazon asks the court to prevent Mr. Powers from working in a competitive capacity anywhere in the world. The court is willing to assume, even though Amazon has provided no evidence, that the cloud computing business in which Google and Amazon compete is geographically far-flung. Because both companies compete globally, it is possible that Mr. Powers could inflict competitive injury on Amazon even while working a thousand miles from his Seattle-based former employer. But even if the court accepts the extraordinary geographic reach of the ban, it could not accept Amazon's implicit argument that it is impossible for Mr. Powers to compete fairly with Amazon in the cloud computing sector.

Amazon has failed to articulate how a worldwide ban on cloud computing competition is necessary to protect its business. Its ban on working with former customers serves to protect the goodwill it has built up with specific businesses. A general ban on Mr. Powers' competing against Amazon for other cloud computing customers is not a ban on *unfair* competition, it is a ban on competition generally. Amazon cannot eliminate skilled employees from future competition by the simple expedient of hiring them. To rule otherwise would give Amazon far greater power than necessary to protect its legitimate business interest. No Washington court has enforced a restriction that would effectively eliminate a former employee from a particular business sector. This court will not be the first, particularly where Amazon has not provided enough detail about the nature of AWS's cloud computing business to convince it that an employee like Mr. Powers can only compete with AWS by competing unfairly.

***11** Much of Amazon's argument in favor of enforcement of its general restriction on competition is cribbed from the inevitable disclosure argument it advanced in support of the Agreement's nondisclosure provisions. According to Amazon, Mr. Powers simply knows too much to compete fairly with Amazon in the cloud computing sector. The court finds these claims to be fatally nonspecific, as it explained in Part III.A. Generalized claims that a former employee cannot compete fairly are insufficient. *See Copier Specialists, Inc v. Gillen,* 76 Wash.App. 771, 887 P 2d 919, 920 (Wash.Ct.App.1995) (finding that the "training [an employee] acquired during his employment, without more," did not warrant enforcement of a geographically limited covenant not to compete). Before enforcing a general restriction against competition, the court would require a far more specific showing than Amazon has made here. [5]

C. Washington Law, not California Law, Applies to Amazon's Claims Based on the Agreement.

The court briefly addresses Mr. Powers' contention that California law, not Washington law, should apply to this dispute. The court considers that contention only as it applies to Amazon's claims based on the Agreement. No one has articulated a choiceof-law argument as applied to Amazon's Trade Secret Act claim, and the court need not consider that issue in light of its disposition today.

Because the court exercises diversity jurisdiction in this case, it applies Washington's choice-of-law rules. *Patton v. Cox,* 276 F.3d 493, 495 (9th Cir.2002). The threshold question in a Washington choice-of-law analysis is whether there is an actual conflict with another state's law. *Burnside v Simpson Paper Co.,* 123 Wash 2d 93, 864 P.2d 937, 942 (Wash.1994); *see also Alaska Nat'l Ins Co. v. Bryan,* 125 Wash App. 24, 104 P 3d 1, 5 (Wash.Ct.App.2004) (placing burden on party favoring another state's law to establish conflict with Washington law). The court assumes without deciding that Mr. Powers correctly asserts that even the Agreement's restrictions on working with former customers would be unenforceable under California's more pro-employee approach to noncompetition agreements. *See, e.g., Google, Inc. v. Lee,* 415 F.Supp.2d 1018, 1022 (N D Cal.2005) (comparing Washington and California law). Amazon does not argue otherwise.

Having identified a conflict of law, Washington choice-of-law rules require the court to consider the Agreement's choice of Washington law. Agr. ¶ 9. Washington courts apply § 187 of the Restatement (Second) Conflict of Laws (" § 187") when resolving "conflict of laws problems in which the parties have made an express contractual choice of law." *Erwin v. Cotter Health Ctrs.,* 161 Wash.2d 676, 167 P.3d 1112, 1120–21 (Wash.2007). In relevant part, § 187 requires the court to enforce the parties' contractual choice of law unless "the chosen state has no substantial relationship to the parties or the transaction and there is no other reasonable basis for the parties' choice," § 187(2)(a), or "the application of the law of the chosen state would be contrary to a fundamental policy of a state which has a materially greater interest than the chosen state in the determination of the particular issue and which, under the [Restatement (Second) Conflict of Laws, § 188], would be the state of the applicable law in the absence of an effective choice of law by the parties," § 187(2)(b). No one argues that Washington lacks a substantial relationship to Mr. Powers, Amazon, and the Agreement. For that reason, Mr. Powers' plea for the application of California law requires him to, among other things, show that California has a "materially greater interest" than Washington in determining the enforcement of the Agreement.

***12** California's interest in the enforcement of the Agreement is no greater than Washington's. Washington's willingness to enforce anticompetitive restrictions reflects a strong interest in protecting its businesses from unfair competition from former employees. California likely has a strong interest in protecting its workers from attempts by their former employers to limit their employment. Nothing, however, would permit the court to conclude that California's interest is "materially greater," especially as applied in this dispute. One court within this District has enforced a Washington choice-of-law clause against employees *who lived and worked in California* when they signed a restrictive agreement with their Washington employer. *CH2O, Inc. v. Bernier,* No. C11–5153RJB, 2011 U.S. Dist. LEXIS 42025, at *2 3, *20 24, 2011 WL 1485604 (W D.Wash. Apr.18, 2011). In this case, Mr. Powers had no idea when he signed the Agreement that he would one day seek work in California, and thus no reason to expect that California law would apply. That he has now emigrated to California does not give California a materially greater interest in the outcome of this dispute. In circumstances like these, the court is aware of no court applying Washington's choice-of-law rules that has concluded that California's interest in protecting its employees materially outweighs Washington's interest in providing limited protection to its employers.

D. Amazon Has Made a Sufficient Showing on the Remaining Injunctive Relief Factors to Justify a Limited Injunction.

On this record, Amazon is likely to succeed on the merits only of its claim based on the Agreement's restrictions on working with former customers, although only for nine months. The court now considers whether Amazon has demonstrated a likelihood of irreparable harm, where the balance of hardships tilts, and the public interest.

Irreparable harm is a likely consequence of permitting an employee to pursue his former customers in violation of a valid restriction. The monetary damage from loss of a customer is difficult to quantify, and the damage to goodwill even more so. There is no direct evidence that Mr. Powers intends to solicit former Amazon customers. Given his opposition to Amazon's motion, however, the court finds it likely that he would approach at least some customers (or some customers would approach him) if neither Google nor this court prevents him from doing so.

In the context of this limited injunction, the balance of hardships favors Amazon. Before Amazon even learned of Mr. Powers' work at Google, Google was willing to keep Mr. Powers from cloud computing work until six months after he began working at Google. That self-imposed restriction would have expired in late March 2013. Given that Google was willing to impose that restriction and Mr. Powers was willing to accept it, the court finds no hardship to Mr. Powers in enforcing the Agreement's more limited customer-based restrictions until March 19, 2013, nine months after Mr. Powers' last had access to Amazon information.

***13** The public interest does not weigh heavily in favor of either party. There is no evidence that the court's decision on this injunction will impact the public.

IV. PRELIMINARY INJUNCTION

For the reasons stated above, the court enters the following preliminary injunction. Until March 19, 2013, unless the court orders otherwise, Defendant Daniel Powers may not directly or indirectly assist in providing cloud computing services to any current, former, or prospective customer of Amazon about whom he learned confidential information while working at Amazon. "Confidential information" has the definition the parties gave it in the Agreement.

Given the brief duration of the injunction, Google is unlikely to suffer significant financial harm. For that reason, the court will require Amazon to obtain a $100,000 bond or deposit $100,000 into the court's registry. *See* Fed R. Civ. P. 65(c) (requiring security "in an amount that the court considers proper to pay the costs and damages sustained by any part found to have been wrongfully enjoined"). This injunction will take effect upon Amazon's notice of a bond or cash deposit.

V. CONCLUSION

For the reasons stated above, the court GRANTS in part and DENIES in part Amazon's motion for a preliminary injunction. Dkt. # 11.

Parallel Citations

34 IER Cases 1878

Footnotes

1 Before Amazon objected to Mr. Powers' employment at Google, Google voluntarily kept him from working in cloud computing until six months after his employment began, or about the end of March 2013. Amazon's negotiation for restrictions in connection with this litigation led Google to promise no restrictions beyond the end of 2012. It is not clear whether Google will continue its restrictions beyond the end of this year; in any event, Google's choice would not impact the court's decision today.

2 *Winter* overruled Ninth Circuit law that permitted a party to obtain a preliminary injunction merely by proving a "possibility" of irreparable harm. 555 U.S. at 22. Ninth Circuit panels initially raised questions over the scope of the *Winter* ruling. *See Shepherd v. Weldon Mediation Servs., Inc.*, 794 F.Supp.2d 1173, 1176 77 (W.D.Wash.2011) (reviewing cases). It now appears settled that *Winter* did not "change the requisite showing for any individual factor [in the preliminary injunction analysis] other than irreparable harm." *Small v. Avanti Health Sys., LLC*, 661 F.3d 1180, 1187 (9th Cir.2011).

3 Amazon asked for an injunction that would prohibit Mr. Powers from "[s]oliciting or recruiting" Amazon employees. The Agreement, by contrast, is much more broad. It would prohibit Mr. Powers (and arguably Google itself) from employing any Amazon employee, regardless of who (if anyone) solicited or recruited the employee to work at Google. Amazon's insistence that the Agreement imposes "narrow" restrictions is frequently at odds with the language of the Agreement.

4 As written, the restrictive covenant in *Perry* would have lasted five years. 748 P.2d at 225. At trial, however, the employer sought to enforce it solely as to the year and a half between the employee's departure and trial. *Id.* at 231. For that reason, the court declined to decide whether a five-year restriction was too long. *Id.* at 230 31.

5 The court's disposition today makes it unnecessary to resolve Mr. Powers' contention that the noncompetition clause in the Agreement applies only to retail markets for consumer goods, and thus has no application to the sale of cloud computing services to businesses.

APPENDIX B

2005 WL 1620328
Only the Westlaw citation is currently available.

NOTICE: THIS OPINION IS DESIGNATED AS UNPUBLISHED AND MAY NOT BE CITED EXCEPT AS PROVIDED BY MINN. ST. SEC. 480A.08(3).

Court of Appeals of Minnesota.

Kathleen HEAD, DVM, et al., Respondents,
v.
MORRIS VETERINARY CENTER, INC., Appellant.

No. A04-2334. | July 12, 2005.
| Review Denied Sept. 20, 2005.

Stevens County District Court, File No. C0-04-115.

Attorneys and Law Firms

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Amy J. Doll, Fluegel, Helseth, McLaughlin, Anderson & Brutlag, Chtd., Morris, MN, for appellant.

Considered and decided by HALBROOKS, Presiding Judge; MINGE, Judge; and PARKER, Judge.*

Opinion

UNPUBLISHED OPINION

HALBROOKS, Judge

*1 Appellant challenges the district court's temporal modification of a noncompete clause from three years to one. Appellant argues that the district court erred by (1) declaring the clause unreasonable and modifying its temporal restriction and (2) finding respondents to be the prevailing party for purposes of costs and disbursements. We affirm.

FACTS

Eugene Anderson, D.V.M., owner and president of appellant Morris Veterinary Center, Inc. (MVC), hired respondents Kathleen Head, D.V.M., and Michael Hein, D.V.M., after completion of their formal veterinary education.[1] Respondents each signed an employment agreement with MVC, which included the following noncompete clause:

Employee agrees that in the event of a termination of this [employment] agreement, for any reason whatsoever, that he/she shall not provide any veterinarian services which shall compete with [MVC's] business herein, for a 25 mile radius of the City of Morris for three (3) years from the date of such termination.[2]

Respondents testified that they received no formal training, mentoring, or evaluation at MVC but that Dr. Anderson was available for "general consultation" and as a "reference to use." Dr. Anderson explained his philosophy for incorporating new veterinarians into the practice as follows:
As soon as [the new hires] arrived, we-we try to introduce them to as many contacts as we can as quickly as we can. We push them into situations we know will have a good outcome.... [W]e put them in situations where we are fairly certain the outcome is going to be good so that the word out there is that they're doing a good job and they're real likeable people.

In tougher situations where there are more challenging environments they might get into, I try to provide support in any[ ]way possible.

Anderson then testified that it can take a "long time" for a client of the clinic to emotionally overcome the departure of an established veterinarian. He explained that "the first year [is] very devastating," but that this "mourning period" diminishes as clients get accustomed to a new veterinarian.

Respondents testified that they felt fully trained by MVC after having been placed in the night- and weekend-rotation schedule. Dr. Head testified that she had her first "weekend on call" three months after starting and was brought into the rotation on a regular basis "about six months" after starting at MVC. Dr. Hein testified that he felt proficient as a veterinarian "within a couple weeks" after starting at MVC.

In 2002 and 2003, respondents approached Dr. Anderson about the possibility of purchasing or buying a portion of MVC. In December 2002, Dr. Anderson shared limited financial information with respondents, including financial statements, tax returns, and an amortization schedule of possible payments. This financial information was kept confidential, and respondents were not given access to other password-protected data on MVC's computer system. Because the sale never materialized, respondents decided to open their own clinic, forming H & H Veterinary Service, LLP, in the fall of 2003.[3] Respondents leased a building for their clinic in Benson, which they believed fell outside the 25-mile radius restriction. Dr. Anderson became aware of respondents' plan to open the new clinic in November, and respondents soon after received notice of his intent to enforce the noncompete clause. On January 15, 2004, respondents resigned from MVC. By September 2004, Dr Anderson had hired two veterinarians to replace respondents.

***2** By complaint filed in district court, respondents sought to invalidate the noncompete clause. MVC moved for a temporary injunction in an effort to enforce it. The district court granted the motion and temporarily enjoined respondents from providing any veterinary services from their clinic located in Benson "or any other location within a 25-mile radius of the City of Morris." Respondents then opened a temporary site for their clinic that is outside the restricted area. A bench trial was subsequently held, and the district court found that the noncompete clause is valid and enforceable, but also found that the three-year temporal restriction is unreasonable and reduced it to one year. The court explained that "[i]t does not take three years for [MVC's] employees [to] learn the fundamentals of the business. They are fully incorporated into the business routine within six months." The court then awarded costs and disbursements to respondents as the "prevailing party" because they obtained a more favorable result than MVC. This appeal follows.

DECISION

I.

The primary issue on appeal is whether the district court erred by finding MVC's noncompete clause to be unreasonable and by modifying its terms to reduce the temporal restriction from three years to one. An appellate court "may not reverse a [district] court due to mere disagreement with its findings. Rather, [it] will reverse a [district] court's findings of fact only when those findings are clearly erroneous. Findings of fact are considered clearly erroneous only if they are not reasonably supported by the evidence." *Fletcher v. St. Paul Pioneer Press,* 589 N.W.2d 96, 102 (Minn.1999) (citing Minn R. Civ. P. 52.01). We view the record in the light most favorable to the judgment of the district court. *Rogers v. Moore,* 603 N.W.2d 650, 656 (Minn.1999). In addition, "[if] there is reasonable evidence to support the district court's findings, we will not disturb them." *Id.*

Covenants not to compete are agreements in partial restraint of trade that historically have been looked upon with disfavor in Minnesota. *See Bennett v. Storz Broad. Co.,* 270 Minn. 525, 533, 134 N.W.2d 892, 898 (1965). But such agreements will be upheld if they are necessary to protect the reasonable interests of an employer and do not impose an unreasonable restraint on the rights of an employee. *Klick v. Crosstown State Bank of Ham Lake,* 372 N.W.2d 85, 87 (Minn.App.1985). As the supreme court has explained, "Where the restraint is for a just and honest purpose, for the protection of a legitimate interest of the party in whose favor it is imposed, reasonable as between the parties, and not injurious to the public, the restraint has been held valid." *Id.* (quoting *Bennett,* 270 Minn at 533, 134 N.W.2d at 898).

The reasonableness of the duration of a restrictive covenant may be tested under two alternate standards: (1) the length of time necessary to obliterate the identification between employer and employee in the minds of the employer's customers, or (2) the length of time necessary for an employee's replacement to obtain licenses and learn the fundamentals of the business. *Dean Van Horn Consulting Ass'n v. Wold,* 395 N.W.2d 405, 408-09 (Minn.App.1986). As we explained in *Klick,* the reasonableness of a temporal restriction depends on three factors: (1) the nature of the job, (2) the amount of time necessary to find and train a replacement for the employee, and (3) the amount of time necessary for the employee's customers to become accustomed to the employee's replacement. 372 N.W.2d at 88. If the noncompete clause is overbroad, a court can enforce it only to the extent that it is reasonable. *Id.; see also Davies & Davies Agency, Inc v. Davies,* 298 N.W.2d 127, 131 n. 1 (Minn.1980) ("[I]n employment cases, a court should be permitted to make changes ... rather than be compelled to strike down the entire agreement as unreasonable.").

***3** Focusing on the first and third *Klick* factors and highlighting Dr. Anderson's testimony, MVC urges that three years is the time required for its clients to become accustomed to respondents' replacements, based on the nature of veterinary-medicine practice. But the district court found respondents' testimony more credible, concluding that new veterinarians are "fully incorporated into the business routine within six months." Dr. Head testified that she felt fully trained and proficient after six months on the job. Dr. Hein felt the same way "within a few weeks." As the district court explained, "There is a period of time necessary for the new veterinarians to become familiar to and accepted by [MVC's] clients...." Dr. Anderson himself testified that clients go through a "mourning period" upon the departure of one of the clinic's veterinarians, explaining that this mourning period can go on indefinitely-"for a long, long time"-and that it changes with time. In fact, Dr. Anderson testified that some clients still refer to veterinarians who departed MVC more than 18-20 years ago. But importantly to this analysis, Dr. Anderson opined that "the first year [is] very devastating." The district court found this opinion to be conclusive in evaluating the reasonableness of the temporal restriction of the noncompete clause. It then blue-penciled, or modified, the restriction from three years to one. Supported by the testimony offered by respondents and Dr. Anderson himself, the district court's decision to declare the noncompete clause unreasonable and to modify its terms is not error

Focusing on the second *Klick* factor, MVC notes that Dr. Anderson did not replace respondents until June 15 and September 1, 2004, and that the district court found six months to be a sufficient time to assimilate the new veterinarians into MVC's practice. Again, because there is evidence in the record to suggest that six months is an adequate time period to train a new veterinarian at MVC, we will not disturb the district court's finding that new employees are "fully incorporated into the business routine within six months." Dr. Anderson hired replacement veterinarians in June and September 2004, respectively. By now, MVC has had sufficient time to train and incorporate the new hires. Given this time frame, to disturb the district court's factual finding now would be futile.

MVC further insists that respondents established a close personal relationship with MVC's clients and that three years is the time required to acquaint new veterinarians with MVC's client base. Because the good will of patients belongs to the employer, MVC argues that the district court erred by concluding that the three-year restriction was unreasonable. MVC cites *Granger v. Craven*, 159 Minn. 296, 199 N.W. 10 (1924), to support the presumption that respondents "acquired a close 'personal hold' upon many of [MVC's patients] and in consequence a substantial portion of [respondents] good will." *Id.* at 303, 199 N.W. at 13. In that case, the supreme court explained the propriety of covenants not to compete in professional settings:

> *4 [I]n the professions ... without solicitation and with even meticulous good faith on the part of the employe[e], the good will and establishment of the employer will be substantially impaired the moment the employe[e], who has served faithfully and well, begins competition with [the employer]. Therefore, it is only reasonable protection of a legitimate interest for a professional [ ], about to employ another on such terms as to give the latter access to the acquaintance and confidence of his clients, to require of the employe[e] a covenant not to enter into competition with the employer for a reasonable time after the relationship is terminated.

Id. at 301, 199 N.W. at 12. But this does not mean that three-year noncompete clauses will always be upheld. *See, e.g., Dean Van Horn*, 395 N.W.2d at 409 (affirming the district court's modification of a restrictive covenant from a three-year period to a one-year period). The appropriate inquiry strikes a balance between an employer's need to protect its business interests and an employee's need to earn a livelihood in the field in which he or she has expertise. *See Bennett*, 270 Minn. at 535-36, 134 N.W.2d at 899-900 ("The validity of the contract in each case must be determined on its own facts and a reasonable balance must be maintained between the interests of the employer and the employee."). As the testimony suggested, acquainting new hires with MVC's client base could, but may not, take several years. The district court limited this indefinite time frame and found one year to be sufficient. The record before us supports the district court's balancing in favor of respondents.

While it is true that some of MVC's clients have followed respondents to their new clinic, many have remained with MVC. The district court found that the noncompete clauses here satisfied "a legitimate business interest of [MVC] to protect its client base from competition from individuals who have been afforded the opportunity by [MVC] to form an intimate professional relationship with that client base." But again, the record supports the district court's conclusion that such protection was needed for only one year. As we have previously stated, "it is not within the scope of our review to make the essential factual finding of whether the covenant was reasonable." *Klick*, 372 N.W.2d at 87-88.

Because evidence was offered to support the district court's finding that the provision was temporally unreasonable, we will not disturb that finding.

II.

MVC also argues that the district court erred by awarding respondents costs and disbursements as the "prevailing party." This court may overturn a district court's award of costs and disbursements when the award is an abuse of discretion. *Striebel v. Minn. State High Sch League,* 321 N.W.2d 400, 403 (Minn.1982). The district court's discretion is addressed with respect to the reasonableness of the disbursements paid or incurred. *Jonsson v. Ames Constr., Inc.*, 409 N W.2d 560, 563 (Minn.App.1987), *review denied* (Minn. Sept. 30, 1987).

***5** Upon respondents' motion, the district court found that respondents obtained a more favorable result than MVC and awarded $1,193.50 in costs and disbursements pursuant to Minn.Stat. § 549.02 (2004) (statutory costs of $200) and Minn.Stat. § 549.04 (2004) ("the prevailing party ... shall be allowed reasonable disbursements paid or incurred"). The reasonable disbursements included respondents' fees for their filing, venue motion, clarification motion, and service of process, as well as $607.80 for Dr. Anderson's deposition transcript.

MVC argues that respondents were not the "prevailing party" in the underlying action because, although the district court modified the temporal restriction of the noncompetition clause, it previously found "a likelihood that [MVC] will prevail on the merits" when it granted MVC's motion for a temporary injunction. But in that same order, the district court explained, "Although there still is a question relating to the reasonableness of the duration of the agreements, initially at least one-year [ ] would not be unreasonable." The temporary injunction remained in effect until final adjudication on the merits.

Given the final outcome here-when the noncompete clause was ultimately found unreasonable and modified in temporal scope-the district court did not abuse its discretion by finding that respondents' costs and disbursements were reasonable and taxable against MVC.

Affirmed.

Footnotes

* Retired judge of the Minnesota Court of Appeals, serving by appointment pursuant to Minn. Const. art. VI, § 10.

1 Dr. Hein was hired in 1995, and Dr. Head was hired in 1998.

2 The clause also contains a liquidated-damages provision, which appellant waived prior to trial.

3 When Dr. Head asked Dr. Anderson why he was not interested in selling a portion of the practice, Dr. Head testified that Dr. Anderson replied, "[Because I] could find a small animal vet anywhere."

APPENDIX C

2010 WL 4672357

Editor's Note: Additions are indicated by Text and deletions by ~~Text~~ .

Only the Westlaw citation is currently available.
United States District Court,
W.D. Pennsylvania.

ZAMBELLI FIREWORKS MANUFACTURING CO., INC. doing business as Zambelli Fireworks Internationale, Plaintiff,
v.
Matthew WOOD, Defendant.

No. 2:08–cv–415. | Nov. 9, 2010.

Attorneys and Law Firms

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Opinion

MEMORANDUM OPINION AND ORDER OF COURT

TERRENCE F. McVERRY, District Judge

***1** Now pending before the Court are cross-motions for summary judgment: PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT REQUESTING ATTORNEYS' FEES AND COSTS (Document No. 76) filed by Zambelli Fireworks Manufacturing Co., Inc. ("Zambelli"); and DEFENDANT MATTHEW WOOD'S MOTION FOR SUMMARY JUDGMENT (Document No. 81). The motions have been thoroughly briefed. The parties have developed their positions regarding the "Concise Statements of Material Facts" and have submitted numerous exhibits for consideration by the Court. Accordingly, the motions are ripe for disposition.

Factual and Procedural Background

Zambelli filed this lawsuit in March 2008 against a former employee, Matthew Wood, and a competitor in the fireworks industry, Pyrotecnico F/X, LLC ("Pyrotecnico") to enforce the restrictive covenants in an Employment Agreement executed between Zambelli and Wood. After a period of discovery, the Court conducted an evidentiary hearing in August 2008 on Plaintiff's motion for a preliminary injunction. The parties filed post-hearing briefs and proposed findings of fact and conclusions of law. On January 21, 2009, the Court issued Findings of Fact and Conclusions of Law in accordance with Fed.R.Civ.P. 52 and 65, which granted Zambelli's motion for a preliminary injunction in part.

Among other factual determinations, the Court found that the fireworks industry is competitive and that both Zambelli and Pyrotecnico have lured customers from one another in the course of competition, and both have lost customers to other competitors. The operative employment agreement was executed on June 2, 2005 (the "2005 Employment Agreement"). The 2005 Employment Agreement contained, *inter alia,* the following provisions:

(a) A non-competition provision purporting to prohibit Wood from engaging "in any manner" in the pyrotechnic business within the Continental United States or taking a position of employment with a company engaged in the pyrotechnic business for two years after leaving the company.

(b) A two-year non-solicitation provision.

(c) A confidentiality provision preventing disclosure of trade secrets and materials.

(d) A provision stating that if a Court should determine that the terms of the non-compete agreement are unreasonable, the remedy shall be modification of the Agreement to less restrictive terms rather than voiding the Agreement.

(e) An attorneys fees provision which states: "If it is necessary for Zambelli to file legal proceedings to enforce the terms of this Agreement and Zambelli prevails, Matthew Wood agrees to pay all legal fees, court costs and expenses incurred by Zambelli in such proceedings."

(f) A provision stating that Pennsylvania law shall apply.

The Court determined that the 2005 Employment Agreement between Zambelli and Matthew Wood is enforceable and that

Wood had breached the terms of the Employment Agreement by accepting an employment offer at Pyrotecnico. On the other hand, the Court explained that Wood is entitled to earn a livelihood in the pyrotechnic field and held that he was entitled to resign from his job at Zambelli and to accept employment at Pyrotecnico. The Court concluded that the non-compete provisions were overbroad, and commented: "The mere fact that Wood could work on shows for Pyrotecnico customers does not directly harm Zambelli."

*2 As to the other claims asserted by Zambelli, the Court stated: "Based on the testimony and evidence thus far presented, the Court observes that Plaintiff is unlikely to succeed on the merits of its claims for breach of fiduciary duty of loyalty, misappropriation of trade secrets, interference with contractual relations or prospective economic advantages, unfair competition and civil conspiracy as there is a dearth of evidence to support any breach of those duties by either Defendant." Conclusion of Law 21. The Court found that Wood had not disclosed any Zambelli trade secrets or proprietary information to Pyrotecnico. The Court further found that during his employment with Pyrotecnico, Wood had done only internal work, had not had client/customer contact, and had actively attempted to avoid conduct which may have been in breach of his employment agreement with Zambelli. Accordingly, the Court modified (or "blue penciled") the restrictive covenants and granted Zambelli's motion for a preliminary injunction in part. Specifically, the Court modified the restrictive covenants as follows:

NON COMPETITION

7. During the term of this Agreement and for a period of two years following termination of this Agreement (FEBRUARY 22, 2008), for any cause whatsoever, Matthew Wood shall not directly or indirectly, either as an employee, owner, or otherwise, anywhere within the geographical area of Continental United States engage in any manner in the DESIGN AND/OR CHOREOGRAPHY OF AERIAL pyrotechnic business DISPLAYS and Matthew Wood AND ANY SUCCESSOR PYROTECHNIC EMPLOYER ~~shall not take any position of employment or ownership with any company or companies engaged in the sale or production of pyrotechnic displays if that company does any business in the aforementioned geographical area. Matthew Wood~~ for two years following termination of this Agreement shall not contact or solicit business with or from any customer, customers, client, OR clients OF ZAMBELLI, ~~or any other person or entity~~ with whom he WOOD had business contact as an employee, agent or representative of Zambelli during his period of employment. Nor shall Matthew Wood during two years following termination of this Agreement act in any manner either as an employee, owner, consultant, agent, principal, employer, partner, corporate officer, or in any other capacity in any manner INDIVIDUALLY OR PERSONALLY engage or participate in any ACTIVITY ~~business~~ that is in competition, in any manner with the business of Zambelli. During the aforementioned two year period, Matthew Wood shall not directly or indirectly solicit or entice for employment any employee of Zambelli. Matthew Wood acknowledges that each of the restrictions set forth in this section is a material condition of this Agreement to employee Matthew Wood, and further, that the parties believe such restrictions are reasonable in duration and scope and that a breach thereof will cause irreparable harm to Zambelli and therefore Zambelli will be entitled to temporary and permanent injunctive relief in addition to all other remedies entitled to at law or in equity.

*3 Wood and Pyrotecnico appealed. On January 15, 2010, the United States Court of Appeals for the Third Circuit issued a precedential opinion which dismissed Pyrotecnico from the case on jurisdictional grounds and affirmed the enforcement of the 2005 Employment Agreement as "blue penciled" by this Court. The Court of Appeals remanded the case with instructions to impose a bond in connection with the previously issued preliminary injunction. The parties then engaged in additional discovery prior to filing the pending cross-motions for summary judgment.

Standard of Review

Summary judgment should be granted "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). Thus, the Court's task is not to resolve disputed issues of fact, but to determine whether there exist any factual issues to be tried. *Anderson v Liberty Lobby, Inc.*, 477 U.S. 242, 247-49, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). The non-moving party must raise "more than a mere scintilla of evidence in its favor" in order to overcome a summary judgment motion. *Williams v. Borough of West Chester*, 891 F.2d 458, 460 (3d Cir 1989) (*citing Liberty Lobby*, 477 U.S. at 249). Further, the non-moving party cannot rely on unsupported assertions, conclusory allegations, or mere suspicions in attempting to survive a summary judgment motion. *Id.* (*citing Celotex*

Corp. v. Catrett, 477 U.S. 317, 325, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986)). Distilled to its essence, the summary judgment standard requires the non-moving party to create a "sufficient disagreement to require submission [of the evidence] to a jury." *Liberty Lobby,* 477 U.S. at 251 52.

Legal Analysis

There are essentially two disputes between the parties remaining in this case. First, Wood contends that Zambelli has failed to prove that it suffered any damages attributable to his conduct, such that Zambelli cannot succeed under any of its legal theories. Second, the parties disagree as to whether the "attorney fees" provision in the 2005 Employment Agreement is enforceable under the facts and circumstances of this case. The Court will address these disputes seriatim.

A. Sufficiency of the Evidence Regarding Damages

Wood argues, in essence, that Zambelli has failed to produce evidence from which a reasonable jury could find that his alleged failure to abide by the restrictive covenants caused Zambelli to incur damages. Thus, Wood contends that he is entitled to summary judgment on all counts of the Complaint and that Zambelli is not entitled to any relief other than the preliminary injunction which had been previously granted. Zambelli contends that there are numerous questions of disputed fact regarding damages which prevent the entry of summary judgment. More particularly, Zambelli contends that its proof must necessarily be circumstantial and that the deposition testimony of CEO Douglas Taylor is sufficient to create factual disputes about Zambelli's damages.

*4 The Court agrees with Wood. Zambelli has used an improper theory for attribution of its alleged damages. Moreover, most of Taylor's deposition testimony is inadmissible hearsay. Zambelli has relied on unsupported assertions, conclusory allegations, or mere suspicions, which the Supreme Court has repeatedly stated are insufficient to survive a summary judgment motion.

In alleging damages in this case, Zambelli has failed to distinguish damages attributable to Wood's *resignation* and acceptance of employment at Pyrotecnico from those which were caused by Wood's alleged wrongful breach of the restrictive covenants deemed to be reasonable by the Court. Thus, Zambelli has claimed damages where "we could reasonably conclude that ***his departure*** hurt us." Taylor Deposition at 44 (emphasis added). *See also* Taylor Deposition at 70–71 (Zambelli is seeking damages relating to its investment to counteract Wood's departure); Zambelli's Response to Wood's Statement of Material Facts ¶ 13 ("Zambelli was also forced to incur significant cost and expense **in attempting to counteract the impact of Wood's departure,** including the cost and expense of injecting new salespeople into the market"); Zambelli's Response to Wood's Statement of Material Facts ¶ 14 ("Mr. Taylor explained that **the loss of Wood's ability,** knowledge and customer relationships resulted in Zambelli being less competitive in the marketplace"). Moreover, Taylor explained that some of Zambelli's efforts in the marketplace were "preemptive" and that he was not suggesting that there was evidence that Wood had contacted his former customers. Taylor Depostion at 71–72.

Zambelli's theory is fatally flawed. Succinctly stated, Zambelli has no right to force Wood to remain employed by Zambelli for his entire career. Upon Wood's resignation, Zambelli certainly lost access to his unique abilities and was required to hire new people to replace him. Nevertheless, the Court had previously ruled that the 2005 Employment Agreement was overbroad and that Wood was entitled to resign and to accept employment with another fireworks company. The Court explained that Wood was entitled to earn a livelihood in the pyrotechnic field. The Court set forth certain limitations on the activities in which Wood could engage while at Pyrotecnico but specifically noted: "A broader restriction would not be reasonable." It necessarily follows that Zambelli has no right to recover damages that allegedly flow simply from "Wood's departure" or from the "loss of Wood's ability."

Zambelli has also failed to produce sufficient evidence to defeat Wood's summary judgment motion. Zambelli premises its damages on the loss of four specific former customers. The Court will review the evidence briefly as to each of those customers.

1. Broken Sound Country Club

Taylor testified that Zambelli had been an exclusive supplier to Broken Sound Country Club in the past and that Wood was the primary customer contact. Sometime in 2008, Taylor was informed that Broken Sound would be using Pyrotecnico. Zambelli contends that Wood interfered with this client relationship because a manager at Broken Sound apparently contacted someone at Zambelli to ask how Pyrotecnico got his private cell phone number. Taylor Deposition at 13–20. Taylor was not a party to this conversation. Taylor Deposition at 18. Nor did Taylor conduct any followup investigation. Taylor Deposition at 20. Taylor merely makes the "assumption" that Wood provided the phone number to Pyrotecnico, and he "speculates" that such conduct contributed to the loss of the Broken Sound business. Taylor Deposition at 18–20. The Broken Sound employee did not assert that Wood had provided the phone number and Wood, in his deposition, denied having done so. There is no evidence that the decision of Broken Sound to hire Pyrotecnico had any connection to the obtaining of this alleged private cell phone number, or that the Broken Sound employee had any participation in the decision to engage Pyrotecnico.

***5** In *Smith v. City of Allentown,* 589 F.3d 684, 693 (3d Cir.2009), the Court stated: "Hearsay statements that would be inadmissible at trial may not be considered for purposes of summary judgment." Taylor's deposition testimony—regarding a different Zambelli employee's statement to him about a conversation that that employee had had with a representative of Broken Sound about an alleged call from Pyrotecnico—involves at least double hearsay, *see id.,* which would be inadmissible at trial and may not be used to defeat summary judgment. Zambelli points to no other evidence. Moreover, even if the Court were to consider the Taylor deposition testimony, the chain of proposed inferences is extremely tenuous and a reasonable jury could not conclude that a breach by Wood caused Zambelli's loss of the Broken Sound business.

2. Hard Rock Café

As to Hard Rock Café, Taylor testified: "The only thing I know is that Matt Wood was the primary person on that relationship, and we had a very good relationship with them. We had done a lot of work for them and then we stopped doing work for them." Taylor Deposition at 21. This statement exemplifies the flaw in Zambelli's damages theory. As the Court explained above, it is not sufficient for Zambelli to show merely that it enjoyed a good customer relationship while Wood was employed and then lost that business after he left. Rather, it is incumbent on Zambelli to demonstrate that the loss of business was attributable to specific wrongful conduct by Wood.

Taylor also testified, second-hand, about a statement which allegedly was made by Didi Martz, an employee of Hard Rock, to Jeff Rolfe, a Zambelli employee, [1] to the effect: "Oh, you're the guy who told me I wasn't supposed to talk to you until February of 2010, but we ought to go ahead and talk." Taylor Deposition at 25. As discussed in *Smith,* 589 F.3d at 693, this testimony is inadmissible hearsay and cannot be used to defeat summary judgment. Moreover, to the extent that it can be inferred that Wood made such a statement to Martz, it appears on its face that he was attempting to abide by the non-solicitation restrictions imposed by this Court. Taylor admits that Zambelli did not conduct any investigation to determine whether Wood was improperly participating in marketing efforts with Hard Rock Café. Taylor Deposition at 26.

3. Florida Marlins

Taylor testified that Jeff Rolfe told him that he (Rolfe) had seen Wood at a "demonstration" which Pyrotecnico conducted in an effort to solicit business from the Florida Marlins baseball team. Taylor Deposition at 27. Wood testified that he attended merely as an observer to see uniquely-sized shells detonated at a higher altitude and that he specifically avoided contact with the Marlins. It appears that Rolfe also observed this demonstration and that such observations are common in the industry. Taylor Deposition at 29. Zambelli has not introduced any evidence of actual contacts between Wood and the Marlins. Taylor assumes that Wood's employment by Pyrotecnico is "a contributing factor [to the loss of business], but I don't have any further belief beyond that." Taylor Deposition at 31.

***6** It was perhaps poor judgment for Wood to attend this demonstration at the site of one of his former Zambelli customers. Nevertheless, there is no evidence of an actual breach of Wood's restrictive covenants. The Court again notes that Taylor's testimony about information he obtained through conversations with Rolfe is inadmissible hearsay.

4. City of West Palm Beach

Taylor testified that Zambelli had performed the Fourth of July show for the City of West Palm Beach for several years and that Wood was the primary customer contact. After Wood left Zambelli, Taylor believes that Pyrotecnico won the public bid for this show. Taylor Deposition at 36–38. There is no evidence that Wood participated in any way in the bid for this show. When asked to identify the evidence to relate the loss of the West Palm Beach business to Wood, Taylor answered: "No other evidence than [Wood] maintained a strong relationship with them and we had a strong relationship with them prior to [Wood's] departure." Taylor Deposition at 39.

Taylor explained that he thinks there is a "pattern" that Zambelli has lost business on which Wood was a primary customer contact, which "seems to imply that there was some advantage taken there." Taylor Deposition at 40. This damages theory is not cognizable. Zambelli cannot establish a cause of action based merely on its loss of Wood's services. As the Court has explained, the alleged "pattern" is not sufficient to establish that Zambelli suffered damages as a result of wrongful conduct by Wood. There is simply no evidence that Wood acted wrongfully in connection with the West Palm Beach bid. Zambelli has simply presented Taylor's unsupported allegations, conjectures and suspicions.

In summary, Zambelli has failed to adequately demonstrate a causal connection between its alleged damages and a breach by Wood of an enforceable provision of the 2005 Employment Agreement (Count I), a misappropriation of trade secrets (Count II), a breach of his fiduciary duty of loyalty (Count III), interference with prospective economic advantages (Count V), unfair competition (Count VI) or civil conspiracy (Count VII).[2] The Court noted at the preliminary injunction stage of this litigation that Zambelli had failed to establish any of these theories due to a dearth of evidence, *see* Conclusion of Law 21, and Taylor confirmed in his deposition that Zambelli does not have additional evidence, other than the four customers circumstances discussed above. *See* Taylor Deposition at 51–52, 55, 57, 58, 68, 72, 77. Zambelli has failed to introduce sufficient admissible evidence to enable a reasonable factfinder to determine that its loss of business was due to wrongful conduct by Wood, as opposed to the mere loss of his services or other competitive factors. Accordingly, the Court concludes that Wood is entitled to summary judgment on Counts I–III and V--VII of the Complaint

B. Whether Zambelli May Recover Attorneys Fees

*7 The dispute as to whether Zambelli may recover in excess of $400,000 in attorney fees is a closer call. The 2005 Employment Agreement states (emphasis added):

> If it is **necessary** for Zambelli to file legal proceedings **to enforce the terms** of this Agreement and Zambelli **prevails,** Matthew Wood agrees to pay **all** legal fees, court costs and expenses incurred by Zambelli in such proceedings.

Zambelli contends that it has "prevailed" in this case and therefore, under the plain text of the 2005 Employment Agreement, it is entitled to recover "all" of its legal fees. Wood contends that he should not be liable for any attorney fees because he was justified in defending the lawsuit. More specifically, Wood argues that the attorney fees provision is unenforceable because: (1) it was not "necessary" for Zambelli to file this lawsuit as it could have obtained the relief through amicable settlement of the dispute; (2) Zambelli has not "prevailed"; and (3) that Zambelli did not "enforce the terms" of the Agreement because it was "blue penciled" by the Court.

Contractual fee-shifting clauses are fundamentally different from statutory fee-shifting provisions. *See generally* Kevin P. Allen, *Contractual Fee-Shifting Clauses—How to Determine "Prevailing Party" Status,* 74 Pa. B.A.Q. 178 (October, 2003) (statutory fee provisions are designed to encourage litigation while contractual fee-shifting clauses are intended to discourage litigation). In *Boro Const., Inc. v. Ridley School Dist.,* 992 A.2d 208 (Pa.Commw.2010), the Pennsylvania Commonwealth Court recently outlined the general principles of law which govern the interpretation of contractual "attorney fee" provisions under Pennsylvania law:

> "[T]he general rule within this Commonwealth is that each side is responsible for the payment of its own costs and counsel fees absent bad faith or vexatious conduct." This so-called "American Rule" holds true "unless there is express statutory authorization, a clear agreement of the parties, or some other established exception." *McMullen v. Kutz,* 603 Pa. 602, 612, 985 A.2d 769, 775 (2009) (citations omitted). The burden of proving entitlement to attorney fees is on the party claiming such entitlement. *Department of Transportation v. Smith,* 145 Pa.Cmwlth. 164, 602 A.2d 499, petition for allowance of appeal denied, 531 Pa. 657, 613 A.2d 561 (1992). In addition, where, as here, the fee-shifting provisions are contained in a contract, an appellate court will construe the contractual provisions in accordance with their plain and ordinary meaning. *Profit Wize Marketing v. Wiest,* 812 A.2d 1270 (Pa.Super.2002).

Id. at 220. Thus, to overcome the general "American Rule," Zambelli has the burden to prove a "clear agreement" by the parties to the contrary.

In *Boro Construction,* the School District argued that it was entitled to attorney fees because the contractor had filed a claim and had not prevailed on it. This argument closely tracked the seemingly clear language of the parties' contract.

However, the Court rejected this argument and reasoned that the School District could not recover counsel fees because the contractor had successfully defended against the School District's counterclaim. The lesson of *Boro Construction* is that contractual fee-shifting provisions are construed narrowly by the Pennsylvania courts.

***8** In theory, there is a third alternative to the "all" or "nothing" positions being advocated by the parties—namely, that the Court could "blue pencil" the attorney fee provision, as it did with the substantive aspects of the restrictive covenants. Pennsylvania courts have long held that where a restrictive covenant is found to be overbroad and yet the employer is clearly entitled to some measure of protection from the acts of his former employee, the Court may grant such protection by reforming the restrictive covenant and enforcing it as reformed. *Thermo-Guard, Inc. v. Cochran,* 408 Pa.Super. 54, 596 A.2d 188, 194 n. 9 (Pa.Super.1991); *see also Sidco Paper Co. v. Aaron,* 465 Pa. 586, 351 A.2d 250, 254–55 (Pa.1976). However, it does not appear that modification of an attorney fees provision is available under Pennsylvania law. In *Profit Wize Marketing v. Wiest,* 812 A.2d 1270 (Pa.Super 2002), the Court specifically rejected the option of "blue penciling" the attorney fees provision and stated: "Additionally, we are not willing, nor are we permitted, to fashion an equitable remedy in the instant case because [the Employer] 'partially prevailed.' Although the lower court attempted to craft such a remedy, the language of the contract does not so provide." *Id.* at 1275 n. 3.

Although the Court may not "blue pencil" the fee-shifting clause, it may conduct a "reasonableness" inquiry. The 2005 Employment Agreement, on its face, entitles Zambelli to recover "all" counsel fees. In *McMullen,* 985 A.2d at 776 77, the Pennsylvania Supreme Court rejected this literal reading "because the potential for abuse is too high." Thus, "[t]he trial court may consider whether the fees claimed to have been incurred are reasonable, and [ ] reduce the fees claimed if appropriate," even if no "reasonableness" language is contained in the text of the agreement. *Id.* There were two vigorous dissents in *McMullen* which discussed the underlying policy tensions,[3] opined that courts should be hesitant to override bargained-for, arms-length, freely-entered contractual fee-shifting provisions, and identified a number of methodological questions about how this "reasonableness" inquiry should proceed. *Id.* at 782.

With this background, the Court turns now to whether Zambelli has met its burden to demonstrate a "clear" agreement for it to recover attorney fees under the facts and circumstances of this case. The 2005 Employment Agreement certainly evidences a general intent to shift fees. On the other hand, the "attorney fees" provision could have been made much more precise.[4] The provision uses the generic term "prevails" rather than a more descriptive term such as "prevails in part," "substantially prevails," or "succeeds in enforcing the restrictive covenants in any way, even if modified by the Court." Importantly, the 2005 Employment Agreement is silent with respect to Zambelli's right to recover fees where both parties have won on some issues and lost on others. The Agreement does provide that if the Court determines that the restrictive covenants are unreasonable, the remedy shall be modification rather than voiding the contract. However, the "modification" clause is in ¶ 7 and relates to the scope of the restrictive covenants. It is not determinative of the parties' intent as to the separate fee-shifting provision in ¶ 9 of the 2005 Employment Agreement.

***9** In light of the lack of clarity on the face of the 2005 Employment Agreement, it is instructive to consider how the Pennsylvania courts have interpreted similar contractual language. In *Profit Wize,* 812 A.2d at 1270, the Pennsylvania Superior Court reversed the award of attorney fees in a closely analogous case in which a sales representative had resigned and joined a competitor.[5] The clause at issue in the employment contract read: "Employee further agrees that if Employer prevails in any suit or action under this Agreement, Employee shall reimburse Employer for its expenses incurred in connection with such suit or action, including without limitation, its attorney's fees and costs." The term "prevails" was not defined. During a hearing on a motion for preliminary injunction, the parties reached a settlement and stipulated to the entry of a permanent injunction which reduced the length and scope of the restrictive covenants contained in the employment contract. The trial court awarded counsel fees. On appeal, the Superior Court explained that because the parties had failed to define the term "prevails" in the contract, the Court would use the plain, ordinary meaning, i.e., "to gain ascendancy through strength or superiority" or to "triumph" or "win." The Court further explained that a "prevailing party" is a party "in whose favor a judgment is rendered" regardless of the amount of damages awarded. It explained that the term encompasses situations in which a party receives less relief than it sought, but is limited to circumstances in which a winner is declared "and the court enters judgment in that party's favor." *Id.* at 1275–76.

The *Profit Wize* Court held that the employer had not "prevailed" in that case because the settlement and entry of a permanent injunction represented a compromise in which neither party had emerged as "the clear-cut winner." *Id.* at 1275. The Pennsylvania Supreme Court has not specifically addressed the interpretation of the term "prevail" in a contractual fee-shifting clause. However, in *McMullen*, 985 A.2d at 774–75, the Pennsylvania Supreme Court discussed *Profit Wize* with implicit approval. The Court notes that *Profit Wize* was decided in 2002, several years prior to the execution of the 2005 Employment Agreement between Zambelli and Wood.

It is true that in this case, unlike *Profit Wize,* no settlement was reached and the Court granted (in part) Zambelli's motion for a preliminary injunction, which was upheld (in part) on appeal.[6] However, that relief represented a middle ground. The Court held that Wood breached the 2005 Employment Agreement and that Zambelli was entitled to enforce it. On the other hand, the Court held that Wood was entitled to resign from his position at Zambelli and to accept a job at Pyrotecnico. The Court also concluded that the restrictive covenants in the 2005 Employment Agreement were overbroad. Wood and Pyrotecnico had voluntarily implemented most of the restrictive covenants that were "blue penciled" by the Court. In sum, as in *Profit Wize,* there was no "clear cut winner" in this case. *Accord Paradise v. Midwest Asphalt Coatings, Inc.*, 316 S.W.3d 327 (Mo.Ct.App.2010) (employer did not "prevail" because Court enforced its discretionary modification rather than the agreement the parties signed).

***10** Moreover, it is well-established that success at the preliminary injunction stage does not constitute a final victory in the case and that findings of fact and conclusions of law at the preliminary injunction stage are not binding at a trial on the merits. *See, e.g., University of Texas v. Camenisch,* 451 U.S. 390, 395, 101 S.Ct. 1830, 68 L.Ed.2d 175 (1997). Thus, Zambelli cannot claim to have "prevailed" on the basis of the preliminary injunction. No judgment has been entered in Zambelli's favor in this case. Further, as explained above, Wood's motion for summary judgment on all the other claims will be granted. Therefore, the Court concludes that Zambelli has not "prevailed" in this litigation, as that term has been interpreted under Pennsylvania law, and therefore is not entitled to recover attorney fees under the 2005 Employment Agreement.

In accordance with the foregoing, PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT REQUESTING ATTORNEYS' FEES AND COSTS (Document No. 76) will be **DENIED** and DEFENDANT MATTHEW WOOD'S MOTION FOR SUMMARY JUDGMENT (Document No. 81) will be **GRANTED.**

An appropriate Order follows.

ORDER OF COURT

AND NOW this 9th day of November, 2010, in accordance with the foregoing Memorandum Opinion, it is ORDERED, ADJUDGED and DECREED that PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT REQUESTING ATTORNEYS' FEES AND COSTS (Document No. 76) is **DENIED** and DEFENDANT MATTHEW WOOD'S MOTION FOR SUMMARY JUDGMENT (Document No. 81) is **GRANTED** as to Counts I–III and V–VII of the Complaint. The clerk shall docket this case closed.

Parallel Citations

31 IER Cases 1400

Footnotes

1 Rolfe is apparently no longer employed by Zambelli. No deposition testimony or affidavit/declaration from Rolfe has been submitted as part of the record in this case.

2 Count IV of the Complaint was asserted only against Pyrotecnico.

3 In essence, courts generally uphold individuals' freedom to contract, but are reluctant to shift costs to a party that has no control over the amount accrued.

4 *Compare, e.g.,* the clause at issue in *Pace Constr. Mgrs, Inc. v. Muncy School Dist.*, 911 A.2d 585 (Pa.Commw.2006): "To the extent the Contractor pursues a claim or litigation against the Owner and the Owner prevails, partially or completely, on any or all of its own claims or defenses to the Contractor's claims, leaving the Contractor with less than 100 percent recovery, the Contractor will be liable for any and all attorneys' fees, professional fees, costs or expenses of the Owner, as well as the true cost [of] any of the Owner's employee's time, associated with analyzing any claim, pursuing litigation or defending the claim or litigation."

5 Although Wood cited *Profit Wize* in its brief, Zambelli has not attempted to distinguish the case. Indeed, Zambelli has cited only a single authority as to the interpretation of the term "prevail," *Hensley v. Eckerhart*, 461 U.S. 424, 103 S.Ct. 1933, 76 L.Ed.2d 40 (1983), which is distinguishable insofar as it is not based on Pennsylvania law and involved a statutory fee award.

6 Zambelli certainly did not "prevail" against Pyrotecnico under any definition of the term, as Pyrotecnico was dismissed from the case by the Court of Appeals.

EISENHOWER & CARLSON

April 30, 2014 - 11:32 AM

Transmittal Letter

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- Personal Restraint Petition (PRP)
- Response to Personal Restraint Petition
- Reply to Response to Personal Restraint Petition
- Petition for Review (PRV)
- Other: ________

Comments:

No Comments were entered.

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