

No. A08-763

A08-965

STATE OF MINNESOTA
IN COURT OF APPEALS

Softchoice, Inc.,

Appellant,

vs.

Martin Schmidt,

Respondent, and

Michael Johnson,

Defendant.

REPLY BRIEF OF APPELLANT SOFTCHOICE CORPORATION

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ARGUMENT

I. **SOFTCHOICE'S AGREEMENT TO ALLOW SCHMIDT TO PARTICIPATE IN THE PLAN AND ITS DEPOSIT INTO HIS TRUST ACCOUNT WAS SUFFICIENT CONSIDERATION FOR THE NON-COMPETE AGREEMENT**

There is no dispute that Softchoice allowed Schmidt to participate in the Employee Retention Plan in exchange for Schmidt's agreement to the terms of the Employee Retention Plan (the "Plan") and the Confidentiality and Non-Compete Agreement (the "Agreement"). (T. 29-30; A. 64-67; A. 76-82.) There is also no dispute that, after Schmidt signed the Plan and the Agreement, Softchoice deposited \$25,000 into a trust account for Schmidt's benefit, as provided by the terms of the Plan. (T. 31; A. 68-75.) Finally, there is no dispute that, once the \$25,000 was deposited, *only Schmidt controlled* whether or not he would receive these funds under the Plan. (A. 76-82.) Given these undisputed facts, the only question for this Court is whether the District Court abused its discretion in finding that Softchoice did not provide sufficient consideration to support the Agreement when it allowed Schmidt to participate in the Plan and deposited \$25,000 into Schmidt's account.

As Softchoice demonstrated in its opening brief, under the law of Missouri and the decisions of other jurisdictions that have examined this precise issue, the opportunity to participate in the Plan and Softchoice's deposit of funds was ample consideration for the

Agreement.¹ Moreover, as will be discussed in greater detail in Section I.C.1 below, the consideration sufficiently supported both Softchoice's right to seek an injunction and Schmidt's forfeiture of the money Softchoice deposited into Schmidt's account.

A. Schmidt's Argument On Consideration Is Not Supported By Missouri Law, Or That Of Any Other Jurisdiction.

Schmidt wrongly argues that "[t]he central pillar of Softchoice's argument is its assertion that Schmidt never proved that he would not be entitled to receive the money in the trust accounts." (Schmidt Br., p. 24.) The *actual* central pillar of Softchoice's argument is that, in exchange for the Agreement, Softchoice allowed Schmidt to participate in the Plan, it agreed to abide by the Plan terms, and it deposited funds into Schmidt's account, all of which constituted sufficient consideration for the Agreement. On this key issue, Schmidt does not refer the Court to any cases from Missouri, Minnesota, or any other jurisdiction where, on similar facts, a court held that the opportunity to participate in a benefit plan was insufficient to support a non-compete agreement. Neither does he make a meaningful attempt to distinguish the cases cited by Softchoice for the proposition that Softchoice's agreement to allow Schmidt to participate in the Plan, and its deposit of \$25,000 into Schmidt's account, constituted adequate consideration. Instead, Schmidt merely states in a footnote, without any real discussion of the cases, that the cases that Softchoice relies on involved different contractual provisions.

¹ Schmidt incorrectly argues that Softchoice did not make this argument to the District Court. At page 36 of Softchoice's Memorandum in Support of Its Motion for a Preliminary Injunction, Softchoice stated, "It is the exchange of promises, not the exchange of money, which constitutes consideration." Softchoice further discussed the facts and holding of *Modern Controls, Inc. v. Andreadakis* to support its argument that Softchoice's promise to allow Schmidt to participate in the Plan and its deposit of funds into Schmidt's trust account provided sufficient consideration for Schmidt's promise not to compete.

It is, however, unremarkable and immaterial that no other court has considered the *precise* contractual language and circumstances presented here. That is very rarely the case. What is significant, and what Schmidt ignores, is that in all of the cases that Softchoice discussed in its opening brief, the employees promised not to compete in exchange for the employers' promise to provide some later benefit — the same situation here.

Although Schmidt entirely ignores it, *Gartner Group Inc. v. Mewes*, 1992 WL 4766 (Conn. Super. Ct. Jan. 3, 1992), is particularly instructive. In that case, the defendant's employer asked the defendant to sign a non-compete agreement in exchange for the employer's agreement to deposit \$36,000 into a "tenure fund" for the defendant's benefit, which would be paid in the future if the defendant did not compete and adhered to other conditions in the agreement. *Id.* at *1. After signing the agreement, the defendant left and joined a competitor in violation of the agreement. *Id.* Because the defendant did not otherwise comply with the terms of the agreement, the defendant forfeited the \$36,000 that was deposited in his tenure fund. Additionally, the employer sought an injunction to prohibit the defendant from further breaching the promises he made not to compete. In response, the defendant made virtually the same argument made by Schmidt here, that there was no consideration for the non-compete agreement because he did not receive the tenure fund money when he signed the agreement. *Id.*

The court rejected the defendant's argument, finding that the agreement was supported by adequate consideration because,

As Professor Simpson explains “a promised performance expressly conditioned upon the happening of an uncertain future event is sufficient consideration for a counter-promise. If the event fails to happen the promise is performed with no resultant detriment or benefit, *yet the chance that the condition may happen involves sufficient possibility of detriment to constitute consideration.*”

Id. at *2 (citing *Simpson on Contracts*, 1954 Ed. at 89) (emphasis added). Therefore, because the agreement in *Gartner* was supported by adequate consideration, and despite the fact that the employee forfeited any payment from the tenure fund, the court granted the employer’s request for an injunction enforcing the non-compete agreement. *Id.* at *5.

The facts in *Gartner* are nearly identical to those presented here. Softchoice allowed Schmidt to participate in the Plan in return for signing the Agreement, deposited funds into Schmidt’s trust account under the Plan, thereby promising to pay Schmidt the funds (and any gains) pursuant to the Plan terms, as long as he also complied with the terms of the Plan and the Agreement. The Agreement made it clear that Schmidt’s acceptance of the Agreement was in consideration for Schmidt’s participation in the Plan, and that the Agreement and the Plan constituted one agreement. Indeed, the Agreement states specifically that “[t]his Agreement and the Plan contain the entire agreement between the parties,” and Schmidt signed both the Agreement and the Plan on the same day (A. 64; A. 65 ¶8; A.67; A. 82.)

If Schmidt had fulfilled his obligations after Softchoice deposited the \$25,000 into his trust account, Softchoice would have been legally obligated to pay Schmidt the funds. (A.80 ¶ 13 (“The Board may amend, suspend or terminate the plan, in whole or in part, at any time. However, no amendment, suspension or termination shall adversely affect a

Participant's rights with respect to any previously awarded Retention Credits.") As in *Gartner*, this obligation constituted sufficient consideration for the covenants contained in the Plan and the Agreement.

Schmidt also largely ignores another case that is directly on point, *Aetna Retirement Serv., Inc. v. Hug*, 1997 WL 396212 (Conn. Super. Ct. June 18, 1997).² In that case, the employee agreed to a non-compete based on the employer's promise to allow the employee to participate in a "Retention Bonus Program." The Retention Bonus Program provided that the employee would be paid a future bonus of an undetermined amount if the employee was not terminated for cause or did not voluntarily resign and violate the non-compete. *Id.* at *3. After agreeing to participate in the Retention Bonus Program and accepting the terms of the non-compete, the employee resigned and accepted employment with a competitor. *Id.* at *4. Because the employee voluntarily resigned and competed in violation of the Retention Bonus Program, he forfeited his right to the bonus. Thereafter, the employer sought to enjoin the employee from violating the non-compete.

In opposition to the employer's preliminary injunction motion, the employee argued, like Schmidt here, that the agreement was not supported by adequate consideration because he did not receive any money. *Id.* at *9. Rejecting the employee's argument, the court stated,

² Schmidt argues that the *Aetna* case is distinguishable because the amount of the bonus in that case was "non-discretionary." (Schmidt Br., p. 34, n.11.) The *Aetna* court, however, did not find it significant that the bonus amount was set within a range. Instead, the court found it significant that the employer undertook a legal obligation to pay the bonus if the employee complied with certain conditions. The same is true in this case. *Aetna* is, therefore, apposite.

While it is true that Hug would receive these bonuses only if he both remained an ARS employee for two years and did not compete for one year thereafter, Aetna's promises are not rendered illusory simply because Hug chose to leave ARS prior to the two year period he agreed to.

...

The fact that Defendant, by his free election, ended his employment with Plaintiffs before he actually received either of the bonus payments to which he would otherwise have been entitled does not make Plaintiffs' promises illusory. Had Defendant otherwise fulfilled his promises, Plaintiffs would have had a legal obligation to pay Defendant his Retention Bonus.

Id. Finding that the non-compete was supported by adequate consideration, the court entered an injunction, even though under the terms of the employee's plan, the employee had also forfeited his rights to any payment.

The facts in *Aetna* mirror the facts in this case. After Softchoice allowed Schmidt to participate in the Plan and deposited the \$25,000 into his trust account, only Schmidt controlled whether he would receive the payout. As in *Aetna*, the fact that Schmidt may not receive money from the Plan does not make Softchoice's promise to pay Schmidt pursuant to the Plan illusory. If Schmidt had fulfilled his promises under the Agreement and Plan, Softchoice would have been obligated to pay those funds to Schmidt.³

The employees in the above cases did not receive a cash payment in exchange for their promise not to compete, but that did not render their non-competes unenforceable. Instead, in each case, the employee received a promise from the employer in exchange for the employee's promise not to compete and it was this exchange of promises that

³ The fact that Softchoice was obligated, to pay the \$25,000 once it was deposited distinguishes this case from Schmidt's proposition that "[a] consideration cannot be constituted out of something that is given and taken in the same breath." *Wilmar, Inc. v. Liles*, 185 S.E.2d 278 (N.C. App. 1971). Here, Softchoice did not control whether Schmidt would receive the funds in the account once the funds were deposited. Therefore, Softchoice could not "give and take" the consideration it provided.

constituted the consideration; no immediate transfer of money was required. This is exactly the situation here. Although *Gartner* and *Aetna* were decided under Connecticut law, Missouri and Connecticut courts are in substantial agreement as to the requirement for consideration when a non-compete is not part of an initial offer of employment.

Compare Van Dyck Printing Co. v. DiNicola, 648 A.2d 898, 901 (Conn. Super. Ct. 1993) with *Ashland Oil v. Tucker*, 768 S.W.2d 595, 601 (Mo. Ct. App. 1989) and *Computer Sales Int'l v. Collins*, 723 S.W.2d 450, 452 (Mo. Ct. App. 1986). Therefore, the same result should follow in either jurisdiction

As these and the other cases cited by Softchoice in its opening brief make clear, Softchoice provided consideration for the agreement because, in exchange for Schmidt's promise not to compete, Softchoice made him a participant in the Plan, agreed to abide by the terms of the Plan, and deposited \$25,000 to Schmidt's account under the Plan. *See also Aon Consulting, Inc. v. Midlands Fin'l Benefits, Inc.*, 748 N.W.2d 626, 639 (Neb. 2008); *Smith, Barney, Harris Upham & Co. v. Robinson*, 12 F.3d 515, 519 (5th Cir. 1994); *Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1267-68 (8th Cir. 1978); *Field v. Alexander & Alexander of Indiana, Inc.*, 503 N.E.2d 627, 631 (Ind. Ct. App. 1987).

B. Schmidt's Hypothetical Real Estate Transaction Does Not Apply To The Situation Here.

In lieu of distinguishing Softchoice's cases in a meaningful way, or citing any persuasive authority of his own, Schmidt relies on a hypothetical real estate transaction to support his argument that Softchoice's payment to Schmidt's account was not sufficient

consideration for Schmidt's Agreement. Schmidt's argument relies on the following hypothetical facts: Softchoice agrees to put the purchase price for Schmidt's house into an escrow account and promises to transfer the money in the account to Schmidt if Schmidt conveys title to his house on a particular date. But if Schmidt does not transfer title on the agreed-upon date, Softchoice does not have to pay the purchase price for the house. (Schmidt Br., p. 29.) Schmidt claims that, under Softchoice's argument, if Schmidt does not transfer title on the agreed-upon date, Softchoice would both get to keep the money in the escrow account and obtain an order requiring Schmidt to deliver title to Softchoice. (*Id.*)

Schmidt does not cite any authority that uses such a real estate transaction as an analogy to a non-compete agreement. However, in *Smith, Barney*, 12 F.3d at 520, the court rejected the same argument that Schmidt makes here based on a similar comparison between a contract for deed and an employment contract. In that case, the employer promised to pay incentive compensation to the employee at the end of the year as long as the employee did not resign and was not terminated for cause. *Id.* at 517. And if the employee received any advances on the incentive payment, but resigned or was terminated for cause before the end of the year, the agreement provided that the employee would be required to return all of the advances. *Id.* Despite the agreement, the employee resigned and the employer sought a preliminary injunction to enforce the non-solicitation covenant. The employee argued that the agreement was unenforceable because he was never paid the incentive compensation and was required to refund a \$7,000 advance he received under the plan. *Id.* at 519.

Applying Louisiana law, the Fifth Circuit rejected the employee's argument and upheld the injunction issued by the trial court. Specifically, the court held: "[t]he Agreement is not a deed or a promissory note; it is a bilateral, commutative contract, the mutual and reciprocal promises of which supply the consideration for entering into the contract. There is no failure of consideration in this instance." *Id.* (emphasis added).

Schmidt's hypothetical contains the same fatal mistake identified in *Smith Barney*: Schmidt's Agreement is a bilateral contract, which consists of mutual promises. *Coffman Ind., Inc. v. Gorman-Taber Co.*, 521 S.W.2d 763, 769 (Mo. Ct. App. 1975). The contract in Schmidt's hypothetical, however, is a unilateral contract, which results from the performance of an act in consideration of the other party's promise. *Id.* In Schmidt's hypothetical, the only promise in the exchange was from Softchoice (to transfer the money to Schmidt *if* Schmidt conveys title to the house), while Schmidt was simply required to do an act (transfer title). In that situation, as recognized by the court in *Smith Barney*, consideration is not exchanged until Schmidt performs the act: transferring title. But in a bilateral contract — such as Schmidt's Agreement — the consideration is the exchange of promises between the parties, and is measured at the time the contract is made. Therefore, in a bilateral contract, consideration is perfected when both parties make the mutual promises. In contrast, in a unilateral contract, if a party fails to act, there is a failure of consideration because the act itself *is* the consideration — there was no previous exchange. Because Schmidt's hypothetical involves a unilateral contract, his hypothetical is entirely inapposite to this matter.

Schmidt's analogy also fails because it assumes a failure of performance by the promisor, rather than the promisee, as in Schmidt's case. In this case, Softchoice performed its obligations under the parties' contract when it allowed Schmidt to participate in the Plan and transferred the \$25,000 to his account. It is Schmidt's own failure of performance — to live up to the non-compete and non-solicit terms — that prevented the actual transfer of the money to him. In essence, Schmidt wants to use his own lack of performance to retroactively invalidate Softchoice's consideration and to thereby absolve him of his obligation to perform, simply because he does not want to be bound by his promises anymore. But Missouri does not allow a party to unilaterally rescind a contract that it no longer wishes to perform and, logically, such a result would be unjust. *Crestwood Shops, L.L.C. v. Hilkene*, 197 S.W.3d 641, 651 (Mo. Ct. App. 2006) (“a party who has breached a contract may not unilaterally choose to rescind the contract”).

In sum, Softchoice performed its part of the consideration bargain when it made Schmidt a participant in the Plan and transferred \$25,000 to Schmidt's trust account in exchange for Schmidt's promise not to compete. Under Missouri law, this exchange of promises was consideration for the Agreement. *Bankers Capital Corp. v. Brummett*, 637 S.W.2d 424, 429 (Mo. Ct. App. 1982) (“The promise by Bankers to sell, even though conditional, is sufficient consideration for the contract”).

C. Schmidt's Other Arguments Miss The Real Issue on Appeal.

In addition to substituting a faulty hypothetical for citation to actual legal authority regarding the key issue on appeal, Schmidt's response also offers a series of red herring arguments designed to detract attention from the issue before the Court.

1. There is no Legal Barrier to Enforcement of Both the Forfeiture and the Injunctive Relief Provisions of the Agreement.

Schmidt argues that he should be allowed to forfeit his trust account funds rather than fulfilling his legal obligations under the Agreement. This argument, however, has been squarely rejected by the courts that have examined the same issue. An enforceable non-compete agreement can provide that the employee may be enjoined from competing *and* forfeit any right to a payment under the agreement if the employee does compete. *See Smith, Barney*, 12 F.3d at 519-20 (enjoining employee from violating non-compete found in agreement that also provided for employee's forfeiture of right to payment under incentive compensation plan agreement); *Gartner*, 1992 WL 4766 at *5 (enjoining employee from violating non-compete where employee also forfeited right to funds held in trust under agreement similar to Schmidt's); *Aetna*, 1997 WL 396212 at *11 (enjoining employee from violating non-compete agreement that also provided for employee's forfeiture of "Retention Bonus").

As these cases recognize, there is no merit to Schmidt's argument that Softchoice cannot both pursue an injunction against violation of Schmidt's Agreement and require Schmidt to forfeit the \$25,000 because of his violation of the Agreement.

2. **Softchoice did not Need to “Elect its Remedies.”**

Schmidt next proffers a second red herring, arguing that Softchoice must elect its remedy, and that Schmidt’s Agreement can only be construed as a forfeiture-for-competition contract. Schmidt is wrong on both counts.

First, as discussed above, in *Smith Barney*, *Gartner*, and *Aetna*, the employee was both enjoined *and* required to forfeit any payment under an agreement similar to Schmidt’s because, simply, that is what the contract provided for. In contrast, Schmidt returns to his purchase agreement hypothetical and cites two real estate cases for the proposition that Softchoice can either not pay Schmidt, or Softchoice can pursue an injunction. But Schmidt’s cases are completely inapposite because both deal with actions seeking to un-do a real estate purchase and sought to rescind the contract and obtain damages. The courts found that these two remedies are generally inconsistent. *Timmons v. Bender*, 601 S.W.2d 688, 690 (Mo. Ct. App. 1980); *Hughes v. Estes*, 793 S.W.2d 206, 210 (Mo. Ct. App. 1990). Moreover, there is simply no support for Schmidt’s contention that in the employment context, an employer must choose between rescinding the contract or enjoining the employee. Instead, *Smith Barney*, *Gartner*, and *Aetna*, clearly demonstrate that, if provided by the contract, an employee may be required to forfeit a future benefit and be subject to injunction. The Plan and the Agreement clearly provide for both. Under the *relevant* case law, there is no election of remedies issue in this case.

Second, Schmidt’s forfeiture-for-competition argument fails because in the cases that Schmidt relies on, unlike here, the employer *never requested* injunctive relief. Schmidt’s cases stand only for the unremarkable and unoriginal proposition that if an

employer does not seek an injunction, the employer will not receive an injunction. *Rochster Corp. v. Rochester*, 450 F.2d 118, 122-23 (4th Cir. 1971) (distinguishing employer's attempt to enforce a forfeiture-for-competition clause from an injunction against competition because the forfeiture clause "is not a prohibition on the employees' engaging in competitive work but is merely a denial of the right to participate in the retirement plan if he does so engage"); *Allredge v. City Nat'l Bank and Trust Co.*, 468 S.W.2d 1, 4 (Mo. 1971) (holding that an employer may be entitled to enforce a forfeiture clause when not seeking an injunction even if the forfeiture clause "is not invalid because it is unrestricted either as to time or area. The reasoning is that the former employe[e] is not prohibited from engaging in such employment or activity but may do so if he wishes"). See also *Harris v. Bolin*, 247 N.W.2d 600, 602 (Minn. 1976) (no injunction requested); *Naftalin v. John Wood Co.*, 116 N.W.2d 91, 99 (Minn. 1962) (same); *Van Pelt v. Berefco, Inc.*, 208 N.E.2d 858, 865 (Ill. Ct. App. 1965) (same). Schmidt's cases, however, do *not* stand for the proposition that an employer may not seek both an injunction and provide for a forfeiture of a future benefit.

Significantly, while Schmidt's cases are inapposite, the cases cited by Softchoice — *Smith Barney*, *Gartner*, and *Aetna* — are factually similar and instructive. In each of those cases, the courts enforced the contracts that allowed for both forfeiture and an injunction. The same result should follow here.

3. Softchoice's Consideration was not Illusory.

Schmidt argues that Softchoice's consideration was "illusory" because his participation in the Plan could end at Softchoice's discretion, and because Softchoice had

discretion over what amounts to award to Schmidt.⁴ These arguments are factually and legally meritless.

Schmidt does not and cannot dispute that Softchoice deposited \$25,000 into Schmidt's trust account in the next payment period after signing the Plan and the Agreement. (A. 69.) Further, Schmidt does not dispute that the Plan specifically provided that once a deposit into the account was made, even if Schmidt were removed from the program, *any deposits that had already been made would not be affected*. (A. 80 (“The Board may amend, suspend or terminate the Plan, in whole or in part, at any time. However, no amendment, suspension or termination shall adversely affect a Participant’s rights with respect to any previously awarded Retention Credits.”)) The only way Schmidt would not receive the money was if Schmidt chose, as he eventually did, not to comply with the terms of the Agreement. Once Softchoice transferred the \$25,000 to Schmidt’s account, only Schmidt controlled whether he personally received those funds. In other words, if the consideration was, as Schmidt claims, “illusory,” only he had the power to make it so.

4. Schmidt Mis-Reads *Bankers Capital*.

Bankers Capital stands for the proposition that, under Missouri law, a promise, even if conditional, provides sufficient consideration for a return promise. But Schmidt contends that *Bankers Capital* stands for the proposition that consideration is found only where there is a benefit or a detriment to both parties. (Schmidt Br., pp. 34-35.) *Bankers*

⁴ Schmidt also claims that the consideration is illusory because the money contributed to the Plan was subject to the company’s obligations to its general unsecured creditors in the event of bankruptcy. But even in that hypothetical event, Schmidt still would have a contractual right to the money, even if his interest could be secondary to other creditors.

Capital does indeed state that “[e]ither detriment to the promisee or benefit to the promisor can constitute good consideration sufficient to support a contract.” 637 S.W.2d at 429. But the court did not find that consideration for the contract existed on that basis alone. Instead, the court first found that “[t]he promise by Bankers to sell, even though conditional, is sufficient consideration for the contract.” *Id.* (emphasis added). Here, Softchoice’s promise to pay Schmidt, even though conditional, is sufficient consideration for Schmidt’s promise not to compete. The *Bankers Capital* court’s finding regarding the detriment incurred by the plaintiff was an alternative basis for finding that the contract was supported by sufficient consideration — not the only reason consideration existed. Thus, Schmidt’s attempt to distinguish *Bankers Capital* fails.

5. Noe Does Not Support the District Court’s Holding on the Consideration Issue.

The District Court cited only one case in support of its conclusion that the Agreement was not supported by adequate consideration, *Nat’l Motor Club of Missouri, Inc. v. Noe*, 475 S.W.2d 16 (Mo. 1972). However, as Softchoice demonstrated in its opening brief, *Noe* is inapplicable here.

Schmidt apparently agrees that *Noe* does not support the District Court’s holding, claiming that the *Noe* court never discussed consideration in the context of the covenant not to compete at issue before it. (Schmidt Br., p. 37.) While Schmidt is right that *Noe* does not support the decision below, he is wrong that Softchoice has misread the case; it is Schmidt who has done so.

Contrary to Schmidt's contention, the *Noe* court plainly analyzed consideration in the context of the employee's non-compete agreement. In fact, the *Noe* court expressly sustained the employee's contention that the non-compete agreement was void for lack of consideration, because, as the court found, "[n]o money, promises or written promises" were given to the employee before he signed the agreement. *Noe*, 475 S.W.2d at 21. Therefore, as Softchoice correctly noted in its initial brief, the *Noe* court found that the non-compete was invalid because the employee's promise was based on consideration he had already received. That holding, however, has no applicability to Schmidt's Agreement because there is no question that Schmidt's ability to participate in the Plan, and Softchoice's transfer of funds to his trust account, all took place *after* he signed the Agreement.

Because *Noe* does not stand for the proposition for which the District Court cited it, and because *Bankers Capital* states that a conditional promise is sufficient consideration for another party's promise, the District Court abused its discretion in relying on *Noe* for its finding that "[t]he employee benefit plan is not sufficient consideration for the Schmidt Agreement. Both parties agree that Schmidt never received any money from the employee retention plan, nor will he." (A.34.)

6. Schmidt Misrepresents the Record Regarding the Waiver and Release.

Finally, Schmidt argues that Softchoice in effect acknowledged that there was no consideration for the Schmidt Agreement because Softchoice tried to "cure" Software Plus's error by offering a payment to Schmidt. (Schmidt Br., pp. 37-38.) This argument

is not supported by the record. Chris Illingworth, Director of Enterprise Sales for Softchoice, testified at his deposition that Softchoice provided the Waiver and Release “because Softchoice did not want to continue the trust.” (RA. 63 (38:22-25).) Illingworth did *not* testify — as Schmidt disingenuously states in his brief — that “Softchoice did not like Software Plus’s non-competition agreement.” (Schmidt Br., p. 38.)

In fact, the terms of the Waiver and Release make clear that the cash payment constituted consideration only the release of the participant’s rights in the Plan. It states, “[t]his Waiver shall constitute Participant’s written consent for Company to terminate the Plan and for the Trustee of the trust to terminate the Trust.” (RA. 136, ¶2.) There is nothing in the Waiver and Release to suggest that it was to constitute new consideration for the non-compete agreement.

Even more importantly, the Waiver and Release refers only to the survival of the post-employment restrictive covenants in the Plan; it does not mention the covenants in the Agreement. If it were true that the Waiver and Release was Softchoice’s way of remedying what it allegedly believed was inadequate consideration for the Agreement, it seems obvious that the document would at least mention the Agreement. It does not.

II. SCHMIDT’S AGREEMENT WAS FOR THE LEGITIMATE PURPOSE OF PROTECTING SOFTCHOICE’S CUSTOMER RELATIONSHIPS

If this Court reverses the District Court’s holding that there is no consideration for Schmidt’s Agreement, there is sufficient evidence in the record to conclude that the Agreement was for a legitimate purpose under Missouri law.

Schmidt argues, inaccurately, that there was no evidence before the District Court that Schmidt's Agreement was intended to protect Softchoice's customer relationships. (Schmidt Br., pp. 40-42.) As support for this argument, Schmidt focuses on the purpose behind the Software Plus Employee Retention Plan, rather than the relevant non-competition and non-solicitation provisions of the Schmidt Agreement. Whether or not there was evidence that the Employee Retention Plan was for the purpose of protecting customer relationships is immaterial. The proper inquiry is whether there was evidence demonstrating that the Schmidt Agreement was for the legitimate purpose of protecting customer relationships, and there was ample evidence of that before the District Court.

First and most significantly, Schmidt's Agreement expressly contains provisions that restricted Schmidt's ability to solicit Softchoice's customers for competitors of Softchoice. (A. 64-65.) The only logical, common sense interpretation of that language is that it was designed to protect Softchoice's customer relationships.

The testimony of Doug Stabenow, Softchoice's Director of Sales for the Central Region, at the preliminary injunction hearing provides further corroboration that Schmidt's Agreement was for the primary purpose of protecting Softchoice's customer relationships. For example, when Stabenow learned that Schmidt had tendered his resignation from Softchoice, he told Schmidt that Softchoice would enforce the non-compete agreement because of Softchoice's "need to protect [its] assets and [its] customers." (T. 194.) Similarly, in response to questioning by Schmidt's attorney on cross-examination, Stabenow reiterated that the reason that Softchoice brought suit against Schmidt was to retain its accounts and to protect its assets. (T. 200.) More

emphatically, he testified that Softchoice's "first and foremost" reason for bringing suit to enforce its agreements was "to protect [its] customer relationships." (T. 201.)

Finally, the District Court also had before it the deposition testimony of Illingworth, who had been the National Sales Manager for Software Plus before Softchoice purchased the company. Illingworth testified that the non-solicitation provisions of Schmidt's Agreement were necessary to protect the business relationships and competitive information of Software Plus, which included "competitive pricing; hierarchical knowledge of the business; and information that would put [Schmidt] in a better position than just starting out and calling on that new customer." (RA-67, 57:19-22.)

As Schmidt acknowledges, Missouri courts recognize that protecting customer relationships is a legitimate purpose for the use of post-employment restrictive covenants. For example, in *Health Care Serv. of the Ozarks, Inc. v. Copeland*, 198 S.W.3d 604, 611 (Mo. 2006), the Missouri Supreme Court unequivocally stated that an employer "is entitled to use non-compete agreements to protect itself from . . . misuse of the employee's customer contacts developed at its expense." *See also Sturgis Equip. Co. v. Falcon Indus. Sales Co.*, 930 S.W.2d 14, 18 (Mo. Ct. App. 1996) (trade secrets and customer contacts are a proper "protectable interest"). Significantly, in *Mills v. Murray*, 472 N.W.2d 6, 12 (Mo. Ct. App. 1971), the court noted that "[i]t is universally recognized that an employer has a proprietary right in his stock of customers and their goodwill"

Not only was Schmidt's Agreement for the legitimate *purpose* of protecting Softchoice's customer relationships, but Schmidt's own actions provide direct evidence that Softchoice had a legitimate *need* to use and enforce non-competition and non-solicitation agreements. On his very first day at En Pointe, Schmidt contacted all of the most recent customers with whom he had worked at Softchoice and Software Plus. (A. 41-43; A. 45-47; A. 84-85.) By January 10 and 11, 2008, just one week after Schmidt joined En Pointe, two of those customers —ATK and Fastenal — informed Softchoice that they intended to transfer most of their business from Softchoice to En Pointe. (A. 12-15.) In fact, in his first several weeks at En Pointe, Schmidt's business development efforts focused primarily on contacting customers with whom he had worked at Softchoice. (T. 58.)

Thus, Schmidt's actions in immediately soliciting Softchoice's customers for En Pointe, and his immediate success in doing so, vividly demonstrate not only that this is an industry that has a legitimate need to protect its customer relationships, but also that Softchoice had a specific, legitimate need to protect the customer relationships that Schmidt developed at Softchoice's expense.

Finally, the District Court's decision upholding the non-solicitation agreement of Schmidt's colleague, Michael Johnson, indicates that the District Court understood that protecting customer relationships is a legitimate use of restrictive covenants. To the extent that the lower court's ruling on Schmidt's Agreement is reversed, its finding as to the reasonable purpose of Johnson's Agreement should apply to the Schmidt Agreement as well.

III. SCHMIDT'S AGREEMENT IS REASONABLE BOTH AS TO SCOPE AND DURATION

Schmidt argues that, even if Softchoice has a legitimate interest in protecting its customer relationships, Schmidt's Agreement is overly broad as to scope and duration. This argument is remarkably disingenuous, given Schmidt's actions in working with a direct competitor and soliciting Softchoice's customers for that competitor within *days* of leaving Softchoice. Schmidt did not merely compete on the edges of the Agreement by, for example, working for a nominal competitor of Softchoice, waiting six months before soliciting Softchoice customers, or soliciting Softchoice customers with whom he had no personal dealings. To the contrary, he struck at the heart of the customer relationships that the Agreement was designed to protect — he went to another Large Account Reseller (“LAR”) and immediately and successfully solicited the business of his core Softchoice customers for that LAR. Plainly, Softchoice could not have crafted an effective non-competition or non-solicitation agreement narrowly enough to prevent its blatant breach by Schmidt.

But, under Missouri law, both the non-compete and non-solicitation provisions of the Schmidt Agreement are reasonable as to scope and duration. And, to the extent that the Agreement reaches too broadly to customers with whom Schmidt never had any previous contact, that is not a reason for refusing to enforce the Agreement in its entirety. The District Court should simply have enforced what it found to be the necessary and reasonable restrictions of the Agreement.

A. Schmidt's Agreement Did Not Interfere With His Ability To Practice His Profession.

Neither the non-competition nor the non-solicitation provisions of the Schmidt Agreement materially limit his ability to ply his trade of selling computer software and hardware to businesses.

As Stabenow told Schmidt upon learning of his resignation from Softchoice, Schmidt could have gone to work for "other solution providers, partners, manufacturers, [or] publishers" without violating his Agreement. (T. 193.) Moreover, outside of Minnesota, Schmidt could have immediately worked with any competitor of Softchoice other than another LAR, of which there are only fifteen in the entire United States. (A. 3 ¶15.)

Similarly, the restriction on Schmidt's ability to solicit Softchoice customers did not unduly impede his ability to develop business and earn a living, as Schmidt himself recognized. In his first days at En Pointe, Schmidt prepared a "Top 20 list" of accounts and prospects. (RA-131.) The first five on that list were Softchoice customers with whom Schmidt had worked while at Softchoice and who he immediately solicited for En Pointe. But, as Schmidt testified at the preliminary injunction hearing, the remaining fifteen companies on his list were not Softchoice customers. (T. 68.) Thus, in less than two days at En Pointe, Schmidt had identified fifteen major companies located in Minnesota that were not Softchoice customers and that were top prospects from whom Schmidt was free to solicit business. Schmidt plainly had the ability to both earn a living

and comply with the non-solicitation terms of his Agreement; he simply chose not to do so.

Schmidt does not meaningfully distinguish his situation from those Missouri cases that have held that post-employment restrictive covenants that do not interfere with an employee's ability to practice his or her profession are enforceable. For example, Schmidt merely backhands the court's reasoning in *Schott v. Beussink*, 950 S.W.2d 621, 626 (Mo. Ct. App. 1997), with the comment that the market for accountants (such as were involved in the *Schott* case) "is both larger and broader than that for a commercial software salesman." (Schmidt Br., p. 45.) This unsubstantiated declaration does nothing to undermine the legal reasoning of *Schott* and, in any event, it defies common sense. Virtually every business in the United States of any size relies on computer software. Whether or not every business uses accountants, the market for commercial computer software cannot be any smaller than the market for business accounting.

B. The Agreement Is Enforceable To Its Reasonable Extent.

Finally, the Schmidt Agreement should not have been deemed unenforceable in its entirety even if it reached too broadly, as Schmidt argues, because it restricted Schmidt's ability to solicit potential customers with whom he had no contact at Softchoice.

First, by arguing that Schmidt's Agreement is overly broad because it reaches beyond the five or so major customers with whom Schmidt worked in the past six months, Schmidt effectively concedes the enforceability of the Agreement, disputing only the extent of that enforcement. (Schmidt Br., pp. 42-44). However, even the cases that Schmidt cites do not support his implied argument that, at most, the Agreement should be

enforced only as to his five core Softchoice customers. In *Mills*, 472 N.W.2d at 11, the court limited the scope of the injunction to the customers who the employee had served in the previous year because that was the restriction contained in the employment agreement. *See also Benfield, Inc. v. Moline*, 351 F.Supp.2d 911, 918 (D. Minn. 2004) (enforced agreement that contained one-year restriction on solicitation of former customers). Here, Schmidt's Agreement has a two-year restriction on his solicitation of Softchoice's customers. If anything, *Mills* and *Benfield* suggest only that the Court should enforce the terms of the Schmidt Agreement.

Moreover, as Softchoice pointed out in its opening brief, Missouri law allows a court to "blue-pencil" an employment agreement to give effect to reasonable and necessary restrictions on solicitation. *See Mid-States Paint & Chem. Co. v. Herr*, 746 S.W.2d 613, 616 (Mo. Ct. App. 1988); *Orchard Container Corp. v. Orchard*, 601 S.W.2d 299, 300-304 (Mo. Ct. App. 1980); *Sigma Chem. Co. v. Harris*, 794 F.2d 371, 374-75 (8th Cir. 1986). The non-solicitation provisions of Michael Johnson's agreement with Softchoice restricted Johnson from soliciting those customers who he personally solicited or with whom he became familiar as a result of his employment with Softchoice. (AA-38.) The District Court issued a preliminary injunction giving effect to the non-solicitation provisions of Johnson's agreement, thereby necessarily finding them reasonable in scope. (A.32- A.35.) If it determined that the non-solicitation provisions of the Schmidt Agreement are overly broad, the District Court could have, and should have, "blue-penciled" the Schmidt Agreement to give effect to its non-solicitation terms consistent with the scope of the Johnson agreement.

IV. THE OTHER *DAHLBERG* FACTORS FAVOR AN INJUNCTION

Schmidt's analysis of the other *Dahlberg* factors is premised on faulty logic. Schmidt argues that, because he did not want to work for Softchoice, the nature of the parties' relationship weighed against the issuance of an injunction. This argument is meritless, given that Schmidt's Agreement clearly provided for the possibility of assignment:

You acknowledge and consent that SWP may sell, assign or transfer any of its rights or interest under paragraphs 2 and 3 of this Agreement without additional consent or notice to you. In such event, said paragraphs shall remain in full force after such sale, assignment, or transfer, and shall inure to the benefit of and may be enforced by (i) any successor, assignee or transferee of all or part of SWP's business as fully and completely as it would inure to the benefit of and be enforced by SWP as if no such sale, assignment or transfer had occurred

(A. 66.) The Agreement clearly is not void as a result of Softchoice's acquisition of Software Plus. Thus, in *Seach v. Richards, Dieterle & Co.*, 439 N.E.2d 208 (Ind. Ct. App. 1982), a case that the *Schott* court relied on, the court enforced the terms of post-employment restrictive covenants against an employee even where the employee's agreement was transferred to a successor.

Schmidt also argues that the balance of harms favors him because Softchoice is a big company. This argument is similarly unavailing. It ignores the fact that within weeks after he left Softchoice, Schmidt caused two highly profitable customers to switch to En Pointe, resulting in approximately \$800,000 in revenue losses to Softchoice. (A. 7 – A. 8.) Schmidt cannot seriously argue that the loss of \$800,000 is not harmful.

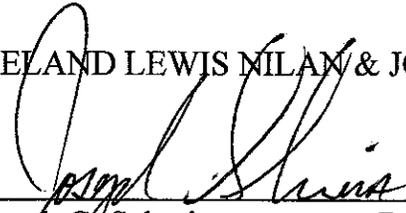
And, if this Court were to accept Schmidt's argument, the balance of harms would always favor the individual. This is not the law in Minnesota. *Thermorama v. Buckwald*, 125 N.W.2d 844, 845 (Minn. 1964) (finding that the breach of a valid noncompete agreement causes irreparable harm to the employer, despite the fact that employer was a company).

CONCLUSION

Softchoice allowed Schmidt to participate in the Plan in return for him signing the Plan and the Agreement, and it deposited the \$25,000 after Schmidt signed the Plan and Agreement. Once the \$25,000 was deposited, only Schmidt controlled whether or not he would receive the funds. This was adequate consideration for the Schmidt Agreement as a matter of Missouri law. Moreover, the Schmidt Agreement was for the legitimate purpose of protecting Softchoice's customer relationships, and is reasonable both as to scope and duration. The District Court, therefore, abused its discretion when it refused Softchoice's request for an injunction enforcing Schmidt's obligations under the Agreement.

Dated: July 14, 2008.

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