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NO. A08-1011

STATE OF MINNESOTA

IN COURT OF APPEALS

Mesabi Rehabilitation Services, Inc.,

Appellant,

vs.

John Witzke,

Respondent

RESPONDENT'S BRIEF AND APPENDIX

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LEGAL ISSUES

1. **Does a judicial officer have jurisdiction to hear and decide an employment contract dispute?**

   This issue was not raised at the trial court level.

   Most apposite cases:

   State v. Harris, 667 N.W.2d 911 (Minn. 2003)

   Most apposite statutory provisions:

   Minnesota Statutes Section 487.08 (2006)

2. **Are restrictive covenants in an employment agreement invalid and unenforceable as a matter of law where the employer cannot demonstrate that the restraints imposed by the agreement are necessary for the protection of the employer's legitimate business interests?**

   The trial court concluded that the restrictive covenants contained within the employment agreement between Mesabi Rehab and Mr. Witzke are invalid and unenforceable as a matter of law.

   Most apposite cases:

   Bennett v. Storz Broadcasting Co., 270 Minn. 525, 134 N.W.2d 892 (Minn. 1965)

   Jim Miller Construction, Inc. v. Schaefer, 298 N.W.2d 455, 459 (Minn. 1980)

   Most apposite statutory provisions:

   N/A

3. **Is the scope and duration of the non-compete provision unreasonable for a practicing Qualified Rehabilitation Consultant where the prohibition extends 150 miles and continues for three years?**

   The trial court concluded that the non-compete clause contained within the employment agreement between Mesabi Rehab and Mr. Witzke is unreasonable as a matter of law.

Most apposite cases:

Bennett v. Storz Broadcasting Co., 270 Minn. 525, 134 N.W.2d 892 (Minn. 1965)

Most apposite statutory provisions:

N/A

4. **Are the names and addresses of an organization's clients for whom an employee had provided professional services while employed by the organization "trade secrets" entitled to protection under the Uniform Trade Secrets Act?**

The trial court concluded that Mesabi Rehab had failed to identify anything that would constitute a trade secret.

Most apposite cases:

Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890 (Minn. 1983)

Most apposite statutory provisions:

Minnesota Statutes Sections 325C.01-.08 (2006)

STATEMENT OF THE FACTS

Mesabi Rehabilitation Services, Inc. ("Mesabi Rehab") is a Minnesota corporation providing vocational rehabilitation consulting services. (A.A. 2). Mesabi Rehab was incorporated by Jim Jackson in 1988. (Id.). Its principal place of business is located in Embarrass, Minnesota. (A.A. 4). It also has offices in Duluth, Hibbing, and Bemidji, Minnesota. (A.A. 4-5). Mesabi Rehab's service area includes from International Falls to the Minneapolis/St. Paul metro area and all points east and west of that to the Minnesota state borders. (A.A. 5).

Mesabi Rehab primarily offers vocational rehabilitation consulting services to injured persons in accordance with the Minnesota Worker's Compensation Act. (A.A. 4). Mesabi Rehab also occasionally provides consulting work in the context of employment-related claims. (A.A. 3-4). The majority of Mesabi Rehab's referrals come from attorneys representing injured persons. (A.A. 6).

Mr. Jackson and the respondent, Mr. Witzke, became acquainted in 1988. (A.A. 8). Mr. Jackson was the qualified rehabilitation consultant ("QRC") assigned to work with Mr. Witzke as a result of Mr. Witzke's own personal injury and worker's compensation claim. (Id.). Shortly after they met, in May of 1988, Mr. Jackson hired Mr. Witzke to work for Mesabi Rehab as a job placement specialist. (Id.).

In January of 1989, approximately eight months after Mr. Witzke began working for Mesabi Rehab as a placement specialist, Mr. Jackson personally presented Mr. Witzke with an employment agreement for his signature. (A.A.18). Mr. Witzke signed

the agreement on January 20, 1989, believing that if he did not sign the agreement, he could lose his job. (R.A. 1).

The employment agreement ("Agreement") contained within it two restrictive covenants, a "Clientele" provision and the provision entitled "Protective Covenant," which state as follows:

> 4. Clientele: It is clearly understood by and between employer and employee that the clientele of Mesabi Rehabilitation Services, Inc. are clients of said corporation and not of employee and the files relative to said clientele are the property of said corporation. Upon termination of this Agreement by either party for any reason whatsoever, said files shall remain the property of Mesabi Rehabilitation Services, Inc. and employees shall have no rights thereto nor access thereto except as may be directed or agreed to by employer and employee. Employee agrees that, upon termination of this Agreement for any reason whatsoever, he shall cease and desist from active solicitation of the clientele of Mesabi Rehabilitation Services, Inc. or the acceptance of representation of said known clientele.
>
> 5. Protective Covenant: Employee agrees that, except as may from time to time in writing otherwise be designated, upon termination of this Agreement for any reason whatsoever by either of the parties hereto, he shall refrain from operating or becoming employed or performing any rehabilitation, placement, or consulting professional services whatsoever within an area of 150 miles radius from Virginia, Minnesota for a period of three (3) years from the date of termination of this Agreement, and employee hereby acknowledges and consents that his employment with Mesabi Rehabilitation Services, Inc. constitutes good and valuable consideration for this restrictive covenant and that the terms of the restrictive covenant as to distance and time are wholly acceptable to him, and that he believe same to be reasonable given all circumstances involved.

(A.A. 74).

When he began working for Mesabi Rehab, Mr. Witzke was attending college and working toward a degree in elementary education. (R.A. 1). Mr. Witzke obtained his Bachelor's Degree in 1990. (A.A. 28). After Mr. Witzke obtained his Bachelor's Degree in 1990, Mr. Jackson and Mr. Witzke discussed whether Mr. Witzke was inclined to pursue a Master's Degree, and whether he would be interested in becoming a qualified rehabilitation consultant. (A.A. 28-29).

Upon deciding to become a QRC, Mr. Witzke went on to pursue a Master's Degree while interning as a QRC under Mr. Jackson. (A.A. 29). Mr. Witzke became a fully qualified QRC in 1992 and continued working for Mr. Jackson and Mesabi Rehab in that capacity for fourteen years. (A.A. 12).

After Mr. Witzke became a licensed QRC, most of his work was gained through direct contact with the referral source of the work, and not through Mr. Jackson. (A.A. 31). The majority of Mr. Witzke's referral sources were workers compensation attorneys, of which there was only a handful. (A.A. 12, 37). Mesabi Rehab's marketing efforts were minor, and basically included a letter sent out once in a while (but not on a regular basis), a listing in the yellow pages and a website. (A.A. 12, 16). The QRCs themselves were expected to generate referrals. (A.A. 17). During the years Mr. Witzke worked as a QRC, he worked independently with the clients he was servicing. (A.A. 32)

After nearly two decades of service to Mesabi Rehab, Mr. Witzke decided to leave Mesabi Rehab and start his own firm in Duluth, Minnesota. (R.A. 2). Mr. Witzke left Mesabi Rehab because he wanted to work for himself and have the opportunity to realize the full fruits of his labor. (R.A. 2). When he left Mesabi Rehab in 2006, Mr. Witzke

was compensated at a rate of $41.46 per billable hour. (A.A. 12). Mesabi Rehab billed Mr. Witzke's time to insurance companies at a rate of $75-$85 per hour. (Id.).[1] Despite the fact that four other QRCs worked for Mesabi Rehab, Mr. Witzke was responsible for at least 1/3 of the case load. (A.A. 4-6, 15). Mr. Witzke also generated work for the other QRCs by passing on referrals. (A.A. 16).

In addition, Mr. Witzke was frustrated because his association with Mesabi Rehab sometimes made it difficult for him to obtain clients, as Mesabi Rehab did not have a reputation in the community as a neutral service provider. (R.A. 2).

Mr. Witzke provided Mr. Jackson with notice that he would be leaving Mesabi Rehab in May of 2006. (A.A. 38). After leaving Mesabi Rehab, Mr. Witzke opened his own company, Witzke and Associates Vocational Rehabilitation Services ("Witzke and Associates"), to self-employ as a QRC. (Id.). Witzke and Associates' office is located in Duluth, Minnesota. (Id.). A number of individuals and entities other than Mr. Witzke/Witzke and Associates provide QRC services in the area served by Mesabi Rehab, but Mr. Jackson does not consider them competitors. (A.A. 14).

On May 22, 2006, Mr. Witzke mailed a letter to each of the clients he was working with explaining that he would no longer be working at Mesabi Rehab as of

[1] The maximum amount that a QRC is allowed to charge per hour for statutory rehabilitation services is prescribed by statute. (A.A. 7). The rate for 2006 was approximately $85 per billable hour for the services of a QRC. (A.A. 7-8, 12). The maximum billable rate must be reduced to $75 per hour after nine months of service or $3,600 in fees, whichever comes first, as an incentive for the QRC to complete the rehabilitation services as early as possible. (Id.). The length of time a particular client's file is open varies, but every client's file is eventually either resolved or closed. (A.A. 15).

June 2, and that per Minnesota statute, the client had a right to choose his/her QRC, and that each client could decide to either remain with Mesabi Rehab or to continue receiving services from Mr. Witzke. (A.A. 40; R.A. 3). Mr. Witzke did not contact these clients by telephone. (A.A. 40). Approximately 34 or 35 of the estimated 38 clients Mr. Witzke was serving while employed by Mesabi Rehab chose to leave Mesabi Rehab and continue receiving QRC services from Mr. Witzke. (A.A. 39-40).

ARGUMENT

I. STANDARD OF REVIEW

Summary judgment is proper when the pleadings, depositions, answers to interrogatories, admissions on file and affidavits submitted "show that there is no genuine issue as to any material fact and that either party is entitled to judgment as a matter of law." Minn. R. Civ. P. 56.03. In reviewing a grant of summary judgment, the appellate court must determine whether there are any genuine issues of material fact and whether the district court erred in its application of the law. Wallin v. Letourneau, 534 N.W.2d 712, 715 (Minn. 1995) (citing Offerdahl v. University of Minnesota Hospitals & Clinics, 426 N.W.2d 425, 427 (Minn. 1988)). Where there are no genuine issues of material fact, a de novo standard of review is used to determine whether the district court erred in its application of the law. Employers Mut. Cas. Co. v. A.C.C.T., Inc., 580 N.W.2d 490, 493 (Minn. 1998) (citing Art Goebel, Inc. v. North Suburban Agencies, Inc., 567 N.W.2d 511, 515 (Minn. 1997)).

II. THE JUDICIAL OFFICER ASSIGNED TO THE CASE HAD JURISDICTION TO HEAR AND DECIDE THE CASE.

Under Minnesota Statutes, a judicial officer holding office as of January 1, 1981 in St. Louis County is permitted to serve at the pleasure of the chief judge of the district under the terms and conditions of his appointment. Minn. Stat. § 487.08, Subd. 2 (2006). The judicial officer is required to be learned in the law, and is authorized under the statute to hear and try matters assigned to him by the chief judge. Id. at Subd. 5. Insofar as the statute authorizes the chief judge to assign *any* district court matter to a judicial officer, however, it violates the Minnesota Constitution, as the Constitution requires that judicial officers be inferior in jurisdiction to the district court. State v. Harris, 667 N.W.2d 911, 919-20 (Minn. 2003).

In State v. Harris, the Supreme Court of Minnesota held that a defendant in a first-degree murder trial was entitled to a new trial before a district court judge because assignment of the case to a judicial officer violated the constitutional requirement that judicial officers be inferior in jurisdiction to the district court. Id. The Court concluded that "[if] judicial officers are allowed to preside over one of the weightiest matters within the district court's jurisdiction – a first degree murder trial – then there is no effective limit to the judicial officer's jurisdiction." Id. at 919.

Here, in contrast to the situation in State v. Harris, the chief judge's assignment of this contract case to a judicial officer did not exceed constitutional limits on the jurisdiction of a judicial officer. The Court in Harris specifically stated that its holding was "not inconsistent with the assignment of certain non-felony trials and other

preliminary matters to a judicial officer." Id. at fn. 4. As much as Mesabi Rehab may want to equate this employment contract dispute to a felony murder case, the two are clearly not comparable. Unlike the assignment of a complex felony murder trial where an individual's liberty is at issue, assignment of this civil, breach of contract action to a judicial officer is clearly consistent with the requirement that the judicial officer's authority be inferior to that of the district court.

Moreover, by failing to raise the issue of the judicial officer's jurisdiction prior to this appeal, Mesabi Rehab waived its objection. An objection is deemed waived if raised for the first time on appeal. See Sletten v. Ramsey County, 675 N.W.2d 291, 302 (Minn. 2004) ("Issues raised for the first time on appeal are not to be considered.").

Here, the parties and/or their attorneys presented multiple submissions to the judicial officer at the trial court level, as well as appeared at a number of hearings, without raising any objection to the judicial officer's authority to hear the case. In addition, Mesabi Rehab appealed a prior decision of the judicial officer in this case to the Court of Appeals, again failing to object to the judicial officer's authority or raising the issue on appeal. To now allow Mesabi Rehab to make an objection to the judicial officer's authority, only after receiving an unfavorable result from the judicial officer, is patently unfair. By failing to raise the issue of the judicial officer's authority at the trial court level, or upon the initial appeal, Mesabi Rehab waived its right to object and the issue should not be considered on appeal.

III. THE RESTRICTIVE COVENANTS CONTAINED WITHIN THE EMPLOYMENT AGREEMENT BETWEEN JOHN WITZKE AND MESABI REHAB ARE INVALID AND UNENFORCEABLE BECAUSE THE RESTRICTIONS ARE NOT NECESSARY FOR THE PROTECTION OF A LEGITIMATE BUSINESS INTEREST.

To be enforceable, a restrictive covenant must be reasonable. Bennett v. Storz Broadcasting Co., 270 Minn. 525, 534, 134 N.W.2d 892, 899 (Minn. 1965). The test to be used to determine whether a restraint is reasonable is:

> [W]hether or not the restraint is necessary for the protection of the business or good will of the employer, and if so, whether the stipulation has imposed upon the employee any greater restraint than is reasonably necessary to protect the employer's business, regard being had to the nature and character of the employment, the time for which the restriction is imposed, and the territorial extent of the locality to which the prohibition extends.

Id. To determine whether a particular restrictive covenant is enforceable, "the court balances the employer's interest in protection from unfair competition against the employee's right to earn a livelihood." Kallok v. Medtronic, 573 N.W.2d 356, 361 (Minn. 1998) (citing Walker Employment Serv., Inc. v. Parkhurst, 300 Minn. 264, 271, 219 N.W.2d 437, 441 (1974)). "[C]ourts are and should be cautious in complying with the request of an employer to enjoin a former servant who has violated a [restrictive covenant] from earning a livelihood. It may well be surmised that such a covenant finds its way into an employment contract not so much to protect the business as to needlessly fetter the employee, and prevent him from seeking to better his condition by securing employment with competing concerns." Menter Co. v. Brock, 147 Minn. 407, 411, 180 N.W. 553, 555 (Minn. 1920).

The general rule is that an employer may seek protection from *unfair* competition of a former employee, but not protection against ordinary competition. 54A Am. Jur. 2d *Monopolies and Restraints of Trade* § 916 (2006). "The employer has no protectible interest in legitimate and ordinary competition of the type that a stranger could give." Id. "Restrictive covenants that serve primarily to prevent an employee from working for others or for himself in the same competitive field so as to discourage him from terminating his employment constitute a form of industrial peonage without redeeming virtue in the American enterprise system." Eutectic Welding Alloys Corp. v. West, 160 N.W.2d 566, 571 (Minn. 1968).

Specific examples of legitimate business interests that may be protected through enforcement of restrictive covenants include the security of confidential information, trade secrets, and investments in specialized training. The decision of the United States District Court for the District of Minnesota in Minnesota Mining and Manufacturing Co. v. Kirkevold provides a good illustration of the type of business interest that legitimately requires the protection of a non-compete agreement. 87 F.R.D. 324 (D. Minn. 1980). In Kirkevold, the Court held that a covenant not to compete, signed by a chemist employed by 3M to develop a coating for flexible and rigid computer discs, was reasonable and enforceable. Id. at 335. The Court found that 3M was a leader in the magnetic media industry, as was the competitor that the chemist employee went to work for. Id. at 327-28. The Court premised its decision that the non-compete was enforceable on 3M's legitimate need to protect confidential information, including research relating to magnetic media products. Id. at 334. The record had established that the confidential

information at issue had been developed by 3M at significant expense and provided 3M with a demonstrable competitive advantage over its competitors in the magnetic media industry. Id. at 334-35.

In Jim Miller Construction, Inc. v. Schaefer, on the other hand, the Supreme Court of Minnesota held that the defendant employee's possession of knowledge acquired during employment as a real estate salesperson could not support a restraint on his acting as a broker where the knowledge he gained from working for the employer was generally available to the public from a variety of sources. 298 N.W.2d 455, 459 (Minn. 1980). The Court stated as follows:

> [T]he fact that an employee has during the course of his employment acquired nonconfidential information and skills that are not secret processes cannot support the enforcement of a restrictive covenant. 'No restrictions should fetter an employee's right to apply to his own best advantage the skills and knowledge acquired by the overall experience of his previous employment.'(citations omitted).

Id. The Court concluded that the restrictive covenant could not be enforced against the employee to prevent him from becoming a real estate broker where his knowledge of guaranteed sales programs, construction financing, and property valuation that was acquired by the employee during the course of his employment with the plaintiff was generally available to the public. Id.

Here, Mesabi Rehab does not have a legitimate business interest to protect through enforcement of a restrictive covenant against Mr. Witzke. The business of providing vocational rehabilitation services does not involve trade secrets, technical knowledge, or other sources of confidential/proprietary information. Mesabi Rehab is not faced with the

threat of employee appropriation of trade secrets, pricing lists, customer preferences, or other information that would give Mr. Witzke an unfair competitive advantage in the marketplace. Instead, in the Agreement, Mesabi Rehab claims that the noncompetition clause is necessary because "the employer has a legitimate need in not promoting further competition within [its] trade area." (A.A. 20). Clearly, Mesabi Rehab is only seeking to enforce the restrictive covenants to shield itself from any competition in a market it defines as encompassing all of Minnesota north of the Twin Cities metropolitan area. This is not a legitimate business interest that may be protected through the enforcement of a restrictive covenant.

Mesabi Rehab appears to make the argument that it made a substantial "investment" in Mr. Witzke by supervising his QRC internship, promoting him to the position of QRC, and providing him certain benefits, such as paying the cost of Mr. Witzke's attendance at continuing education seminars and paying for professional liability insurance. (App. Brief. pp. 10-12, 29). On this basis, Mesabi Rehab appears to make the claim that Mr. Witzke should not be allowed to leave Mesabi Rehab's employ and continue to work as a QRC elsewhere, even after nearly 20 years of service, because of the debt owed to Mesabi Rehab. In fact, Mesabi Rehab even goes so far as to make the remarkable assertion that Mr. Witzke "would never have achieved his current professional stature and station in life had it not been for the generous and gracious benefits and professional mentoring bestowed upon him by Mesabi Rehab." (Id. at p. 29).

Throughout the years, Mr. Witzke more than compensated Mesabi Rehab for any expenditures Mesabi Rehab made toward Mr. Witzke's training and education. The simple fact is that Mesabi Rehab acted in its own interest to advance Mr. Witzke within the company. Promoting Mr. Witzke to a QRC was profitable for Mesabi Rehab. For each billable hour that Mr. Witzke worked, Mesabi Rehab was able to bill insurance companies for Mr. Witzke's billable time at a rate of up to $85.00 per hour, while paying Mr. Witzke $41.56 per billable hour. (A.A. 12). At the time Mr. Witzke left Mesabi Rehab, he was handling at least 1/3 of the existing caseload, even though there were four active QRC service providers employed by Mesabi Rehab at the time. (A.A. 4-6, 15) In addition, he was generating work for the other QRC providers at Mesabi Rehab. (A.A. 16). Mr. Witzke was clearly a profitable and valuable employee.

Mesabi Rehab's attempt to force Mr. Witzke to either continue working for Mesabi Rehab or face unemployment in order to protect its "investment" in Mr. Witzke as a valuable employee is not a legitimate business interest. See Klick v. Crosstown State Bank of Ham Lake, Inc., 372 N.W.2d 85, 89 (motivation to protect "investment" in an employee by forcing him to remain with the company for a long time is not a legitimate business interest that will support a restrictive covenant). Mesabi Rehab cannot force Mr. Witzke into what essentially equates to an indentured servitude under the guise of a restrictive covenant. Moreover, Mr. Witzke's "professional stature and station in life" was not bestowed upon him by Mesabi Rehab. It was through Mr. Witzke's own determination and hard work that he was able to obtain his degrees and certification and earn a reputation in the community as a top quality QRC.

Mesabi Rehab also argues that the restrictive covenants should be enforced because it has a legitimate interest in the protection of its "client list," and Mr. Witzke used the purported "client list" to obtain the names and addresses of his clients for the purpose of mailing a letter to inform each client that he was leaving Mesabi Rehab and that the client had a choice of whom to use as his/her QRC. However, in this case, the "client list" is not a protectible business interest. The "client list" is not an identifiable compilation of information. In fact, Mr. Jackson concedes that "client list" is probably a poor term for what Mesabi Rehab claims as its business interest. (A.A. 12). Instead, according to Mr. Jackson:

> That is probably a poor term, client list. What we're talking about are real people, injured workers. That's what we're talking about when we say client list. We're talking about living, breathing human beings.

(A.A. 12).

Again, Mesabi Rehab makes clear that its sole interest in holding Mr. Witzke to the restrictive covenants in the Agreement is to avoid competition. Mr. Witzke did not appropriate confidential information for an unfair competitive edge. Simply knowing the names and addresses of the clients that he was serving while employed by Mesabi Rehab does not give Mr. Witzke an unfair competitive advantage in the marketplace. Attorneys, not clients, are the referral source for a practicing QRC. As much as Mesabi Rehab might find it expedient to limit area attorneys' ability to refer clients elsewhere, the reality is that Mesabi Rehab cannot shelter its business in this manner. As a result, Mesabi Rehab has instead attempted to limit the attorneys' referral options by taking Mr. Witzke out of the QRC service market altogether.

In addition, most, if not all, of the clients who were served by Mr. Witzke at Mesabi Rehab were represented by counsel. Upon Mr. Witzke leaving Mesabi Rehab, it was the injured workers, with the advice of their attorneys, who decided whether it was in the best interest of the worker to continue receiving services from Mr. Witzke or to switch to another QRC at Mesabi Rehab. As Mr. Witzke made very clear to each client, it was the client's statutory right to decide whether to stay with Mesabi Rehab or continue receiving services from Mr. Witzke. Neither Mesabi Rehab nor Mr. Witzke had ownership of the clients, and the clients' decision whether to receive services from Mesabi Rehab or Mr. Witzke was their own to make.

Moreover, the "client list" is not a customer list in the usual sense, as no future business will be generated by utilizing the client contact information. Mesabi Rehab's need for protection of its "client list" is distinguishable from, for example, a medical facility, beauty salon, dental office, or other service-oriented business where building up a base of loyal clients ensures the business's future success. In the case of a provider of QRC services, clients are substituted on an ongoing basis, and speedy resolution of client cases is encouraged. The QRC client files have a definite beginning and end point. When a file is resolved, the client leaves. Client loyalty does not factor into future business success because the clients constantly change. As a matter of course, a QRC's client one day may not be its client the following day, month, or year. As a result, protection of the purported "client list" is not a legitimate business interest that would make enforcement of a restrictive covenant against Mr. Witzke necessary.

Finally, Mesabi Rehab argues that it has carved out a "niche" practice area in that it serves primarily at the behest and direction of the workers' compensation claimant and the claimant's attorney, and that this niche practice area constitutes "goodwill" that was developed by Mesabi Rehab over a number of years. (App. Brief. 28-29). Mesabi Rehab claims that Mr. Witzke is now using that "goodwill" to compete as a QRC in the same niche. (Id.) Mesabi Rehab equates this case to a sale-of-business scenario in that "the employee 'carries' the employer's good will because customers associate the employee with the employer's business." (Id.)

The fallacy in this argument is the assumption that the attorneys who are making referrals to Mr. Witzke as a QRC provider are doing so based upon his connection with Mesabi Rehab as a former employee, and that the attorneys are somehow unable to make the distinction between Mesabi Rehab as an organization and John Witzke as an individual QRC service provider. As Mesabi Rehab has expressly recognized, its primary referral sources are workers compensation attorneys. (App. Brief. 28). Mesabi Rehab gains the great majority of its business through attorneys, and not through direct contact with injured workers. The reality is that the attorneys who refer clients to Mr. Witzke do so based upon his personal reputation as a highly regarded QRC based on years of working with him, and not based upon his affiliation with Mesabi Rehab. The record reflects that Mr. Witzke was responsible for obtaining his own referrals throughout the years, and that he did not depend on the marketing efforts or the reputation of Mesabi Rehab. In fact, quite the opposite is true, as it was Mr. Witzke's reputation that earned him referrals *despite* his association with Mesabi Rehab.

Moreover, the so-called niche specialty practice Mesabi Rehab is claiming as constituting a type of business goodwill deserving of protection is not supported by the law and is contrary to public policy. First, Mesabi Rehab appears to be arguing that it should be entitled to a monopoly in the area of providing QRC services. Mr. Jackson admits that he does not believe Mesabi Rehab had any other competitors in its service area until Mr. Witzke opened Witzke and Associates. (A.A. 14). Mesabi Rehab claims that the other rehabilitation consulting providers in the area serve a "completely different type of customer than that which is served by Mesabi Rehab." (App. Brief 28). Mesabi Rehab argues that this "niche, specialty practice" should be protected. Mesabi Rehab's real motivation to enforce the restrictive covenants against Mr. Witzke is clearly to avoid any market competition.

Further, Mesabi Rehab's claim that it has a "niche, specialty practice" of providing QRC services at the "behest and direction of the workers' comp. claimant and the claimant's attorney" is against public policy. The QRC service provider's obligation is to work with the injured employee to restore the injured employee so that he or she may return to the work force. *See* Minn. Stat. § 176.102 (2006). This obligation applies to QRCs across the board, regardless of whether the employee independently selects the QRC, or is referred to the QRC by the employee's attorney, the employer or the insurance company. Therefore, Mesabi Rehab's argument that other QRC service providers in the area are not competitors because they "serve a completely different type of customer than that which is serviced by Mesabi Rehab" is not a viable argument.

In sum, the only threat that Mr. Witzke poses to Mesabi Rehab is that he will, as a competitor in the field, receive referrals from attorneys for clients who otherwise may have been referred to Mesabi Rehab for services. This type of competition amounts to nothing more than *ordinary competition* – the type that a stranger could give – as opposed to *unfair* competition. Accordingly, because Mesabi Rehab has no legitimate business interest to protect by imposing restrictive covenants on Mr. Witzke, the noncompetition and nonsolicitation covenants in the Employment Agreement are invalid and unenforceable.[2]

IV. THE NON-COMPETE CLAUSE CONTAINED WITHIN THE EMPLOYMENT AGREEMENT IS UNREASONABLE IN SCOPE AND DURATION.

The trial court properly concluded that the non-compete provision within the Agreement is unreasonable. First, as set forth above, the non-compete does not protect any legitimate business interest of Mesabi Rehab. In addition, the non-compete fails the second part of the Bennett test, which is "whether the stipulation has imposed upon the employee any greater restraint than is reasonably necessary to protect the employer's business, regard being had to the nature and character of the employment, the time for

[2] Even if the non-solicitation clause in the Agreement were enforceable, the undisputed facts clearly show that Mr. Witzke did not violate the provision. As the trial court concluded, the letter Mr. Witzke sent to his clients informing them of their choice to either remain with Mesabi Rehab or continue to receive services from Mr. Witzke was not a solicitation, as it was necessary for Mr. Witzke to send the letter in order to inform the clients of their status and options. (R.A. 7). Under Minnesota law, the injured employee's choices as to QRC are limited. In the event of a QRC leaving a firm to start a solo practice, the employee's choice is to either continue with the assigned QRC or remain with the QRC's former firm. Minnesota Rehabilitation Rules § 5220.0710, Subp. 5 (2006). Mr. Witzke was merely informing the clients he had been serving of their rights under the law, which the trial court properly concluded did not amount to a solicitation.

which the restriction is imposed, and the territorial extent of the locality to which the prohibition extends." 134 N.W.2d at 899.

Based on the language of the Bennett test, the duration and geography of the restriction are measured against the interest being protected to determine reasonableness. In this case, the non-compete provision at issue purports to require that Mr. Witzke "refrain from operating or becoming employed or performing any rehabilitation, placement, or consulting professional services whatsoever within an area of 150 miles radius from Virginia, Minnesota for a period of three (3) years from the date of termination of the Agreement..." (A.A. 20-21). Considering the nature and character of Mr. Witzke's employment with Mesabi Rehab, the geographic scope and duration of the non-compete clause are unreasonable.

First, the geographical scope of the non-compete clause is more restrictive than necessary to protect Mesabi Rehab from an unfair competitive advantage. As written, the clause essentially prohibits Mr. Witzke from working anywhere in Minnesota north of the Twin Cities metro area, from the State border to the east and extending almost to the State border on the west, for a period of three years. Weighing Mr. Witzke's need to earn a living against the interest sought to be protected, it is clear that the geographic scope of the clause is unreasonable. Mr. Witzke's employment qualification is that of a QRC, and the duties and skills of a QRC are specific. The nature of Mr. Witzke's employment as a QRC necessarily results in a limitation on the type of work available to him. The non-compete provision, restricting Mr. Witzke from performing any rehabilitation, placement, or consulting professional services whatsoever within a 150-mile radius from Virginia,

Minnesota, would effectively eliminate any employment opportunities for him in the area where he lives. Mr. Witzke would be unable to work in any area within commuting distance from his home while the provision was in effect. In light of this, the geographic scope of the non-compete cannot be considered reasonable.

The three-year duration of the non-compete provision is also unreasonable as a matter of law. "The reasonableness of a temporal restriction depends on the nature of the job, the amount of time necessary to find and train a replacement for the employee, and the amount of time necessary for the employee's customers to be come accustomed to the employee's replacement." Klick v. Crosstown State Bank of Ham Lake, Inc., 372 N.W.2d 85, 88 (Minn. App. 1985). In this case, considering those factors, three years is excessive. The nature of Mr. Witzke's position as a QRC at Mesabi Rehab was not highly specialized. At the time Mr. Witzke left Mesabi Rehab, Mesabi Rehab employed four other individuals in the same position as Mr. Witzke. (A.A. 4-6). Mesabi Rehab does not intend to replace Mr. Witzke because it does not have enough work to support the QRC service providers already employed. (A.A. 16) In fact, a fully trained QRC who was on maternity leave was available to come back to work at Mesabi Rehab three months after Mr. Witzke left. (A.A. 16). As such, no time period is required to find and train a replacement employee, and a three-year restriction on Mr. Witzke's ability to work is unreasonable.

Finally, the trial court properly refused to apply the "blue pencil doctrine." Under this doctrine, a court may take an overly broad restriction and modify it in order to make

it reasonable. Klick, 372 N.W.2d at 88. While it is within the court's power to apply the blue pencil doctrine, the court is not required to do so. Id.

Here, the trial court concluded that not only was the non-compete provision unreasonable, but it could not be made reasonable by applying the blue pencil doctrine. (R.A. 6). For the reasons set forth above, the non-compete clause is unreasonable as a matter of law. First, it is not necessary for the protection of a legitimate business interest. Next, it unreasonably hinders Mr. Witzke's ability to earn a living. Finally, even if Mesabi Rehab had a legitimate business interest to protect, Mesabi Rehab has not shown that non-compete provision at issue would ever be reasonably necessary to protect that interest, even if duration and the geographic scope were reduced. Accordingly, the trial court's decision granting summary judgment in favor of Mr. Witzke and declaring the non-compete provision unenforceable should be affirmed.

V. THE NAMES AND ADDRESSES OF INDIVIDUALS RECEIVING SERVICES FROM MESABI REHAB ARE NOT TRADE SECRETS ENTITLED TO PROTECTION UNDER THE TRADE SECRETS ACT.

The trial court properly granted Mr. Witzke's Motion for Summary Judgment and dismissed Mesabi Rehab's claim for misappropriation of trade secrets because Mesabi Rehab failed to identify the existence of any material that meets the definition of a trade secret under the Uniform Trade Secrets Act. Mesabi Rehab's claim that Mr. Witzke misappropriated its "client list" by mailing a letter to the clients whom he was serving informing them of his departure from Mesabi Rehab was properly dismissed because the names and addresses of the individuals receiving QRC services from Mesabi Rehab are not trade secrets.

To succeed on a claim for misappropriation of trade secrets, an employer must prove both the existence and the misappropriation of a trade secret. *See* Minn. Stat. § 325C.01-.08 (2006); Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 897 (Minn. 1983). "Trade secret" means information, including a formula, pattern compilation, program, device, method, technique or process, that:

> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Minn. Stat. § 325C.01(5) (2006). To establish the existence of a trade secret, the employer must show that (1) the information is not generally known or readily ascertainable, (2) the information derives independent economic value from secrecy, and (3) reasonable efforts were made to maintain the information's secrecy. Gordon Employment, Inc. v. Jewell, 356 N.W.2d 738, 741 (Minn. App. 1984) (citing Electro-Craft Corp. v. Controlled Motion, 332 N.W.2d 890, 899 (Minn. 1983)).

Here, the names and addresses of Mesabi Rehab's clients are not trade secrets. First, the clients' contact information is readily ascertainable through other sources, including through their attorneys, the telephone directory, or the internet. See Blackburn, Nickels & Smith, Inc. v. Erickson, 366 N.W.2d 640, 645 (Minn. App. 1985) (holding that customer list was not a trade secret or otherwise deserving of protection where it could be easily duplicated from other sources). Second, a list of the names and addresses of Mesabi Rehab's clients has no independent economic value, whether kept secret or not.

The list has no value because it is useless for generating future business, as the business of providing QRC services does not depend on repeat service. As such, Mr. Witzke could not sell the "client list" to anyone for value because no one would have an interest in purchasing the list. Finally, there are no facts in the record to indicate that Mesabi Rehab attempted to keep its clients' names and addresses secret. Although Mr. Witzke concedes that Mesabi Rehab did not distribute client contact information to outside individuals or entities, this fact does nothing to demonstrate that Mesabi Rehab made reasonable efforts to keep the client contact information secret; rather, it simply shows that Mesabi Rehab would not have any reason to distribute its clients' names or addresses to others.

Mesabi Rehab cites the Cherne Industrial, Inc. v. Grounds & Assoc., Inc. case in support of its argument that a "list of customers" constitutes a trade secret. 278 N.W.2d 81, 89-90 (Minn. 1979). Mesabi Rehab's argument, however, takes the Court's holding in Cherne out of context, picking up on a single phrase in a quote but neglecting to further describe the type of "customer list" the Court was referring to. In Cherne, the defendants had taken 624 documents from plaintiff's business containing information that the Court found gave defendants a demonstrable competitive advantage. Id. at 90. The plaintiff was in the operations and maintenance manual market, where there were about 10,000 potential customers for the manuals. Id. The "customer list" included names of prospective customers for the manuals (consulting engineers) and provided additional detail regarding the prospects. Id. The evidence showed that plaintiff spent a

considerable amount of money compiling the list. Id. On those facts, it was reasonable to find that the customer list was confidential. Id. at 91.

Here, on the other hand, Mesabi Rehab did not compile an extensive list including confidential information about its clients or prospective clients. There is no evidence that Mesabi Rehab spent any time or money on such a list. The contact information for employees served by QRCs at Mesabi Rehab was kept in the ordinary course of business, and not separately compiled as a tool for economic advantage. Such information was not kept secret, and it has absolutely no independent economic value.

The Court of Appeals of California addressed the issue of whether client names and addresses were entitled to protection as trade secrets and held that neither the names of clients who were known to former employees nor their addresses were trade secrets. Moss, Adams & Co. v. Schilling, 179 Cal. App. 3d 124, 130 (Cal. App. 1986). Two managerial employees of an accounting firm had signed employment agreements stating that the names and addresses of the firm's clients were trade secrets and could not be used to solicit those clients during employment or within one year thereafter. Id. at 126. After deciding to form their own accounting firm, the employees used a firm rolodex to address envelopes to the firm's clients with whom they had had personal contact and charged time in the previous year and mail an announcement of the formation of their new firm. Id. at 127. Their former employer sued for, *inter alia*, misappropriation of trade secrets, breach of contract, and unfair competition. Id.

The Court of Appeals, affirming the trial court's order of summary judgment in favor of the employees, held that the clients' names and addresses were not trade secrets.

Id. at 128-30. The Court also held that the employees' use of the firm rolodex to obtain the clients' addresses did not constitute solicitation or unfair competition. Id. The Court determined that the names of the clients serviced by the employees during the year preceding their resignations were not trade secrets because the clients became known through personal contact and the provision of accounting services. Id. at p. 129. The Court further concluded that the clients' addresses were not trade secrets because their addresses were easily obtainable through normal resources (e.g. telephone directories). Id. Finally, the Court reasoned that use of the rolodex was not actionable under the employment agreements because the clients' addresses were not trade secrets, and "antisolicitation covenants are void as unlawful business restraints except where their enforcement is necessary to protect trade secrets." Id. at 130.

Here, the trial court properly dismissed Mesabi Rehab's claim against Mr. Witzke for misappropriation of trade secrets. Like the employees in the Moss, Adams & Co. v. Schilling case, who knew the names of the firm's clients whom they sent mailings to because they had provided accounting services to them, Mr. Witzke knew the names of the clients he sent a letter to because he was providing QRC services to them at the time. Therefore, the clients' names are not trade secrets. Likewise, Mesabi Rehab's clients' addresses are readily ascertainable through other means and therefore not trade secrets. Accordingly, because the names of the clients known to Mr. Witzke and their addresses are not trade secrets, Mesabi Rehab's claim that Mr. Witzke misappropriated trade secrets by mailing a letter to those clients was properly dismissed.

CONCLUSION

The trial court properly granted Mr. Witzke's Motion for Summary Judgment and dismissed Mesabi Rehab's counterclaims against him for breach of the noncompetition and nonsolicitation provisions in the Employment Contract and for misappropriation of trade secrets. Covenants restricting competition are viewed as restraints of trade, disfavored by the courts, and strictly construed in favor of the employee. To be enforceable, restrictive covenants in restraint of trade must be supported by consideration and reasonably necessary to protect the employer's legitimate business interests, while not unduly restricting an employee's right to earn a living.

In this case, the restrictive covenants contained within the Employment Agreement are invalid and unenforceable because they serve no legitimate business interest of Mesabi Rehab and undermine Mr. Witzke's ability to earn a living. Moreover, the names of clients who were served by Mr. Witzke while employed by Mesabi Rehab and their addresses are not trade secrets entitled to protection under the Uniform Trade Secrets Act.

Based on the foregoing argument, Respondent John Witzke respectfully requests that this Court **AFFIRM** the ruling of the District Court.

Dated: 9/2, 2008.

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STATE OF MINNESOTA

IN COURT OF APPEALS

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vs.

John Witzke,

Respondent.

CERTIFICATION OF BRIEF LENGTH

I hereby certify that this brief conforms to the requirements of Minn. R. Civ. App. P. 132.01, subds. 1 and 3, for a brief produced with proportional font. The length of this brief is 7,390 words. This brief was prepared using Microsoft Word 2003. The word processing program has been applied specifically to include all text, including headings, footnotes and quotations.

Dated: 9/2, 2008.

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