

COURT DECLINES TO ENFORCE NON-COMPETE AGREEMENT

By: Christopher P. Mazzoli, Member, Workplace Law

The recent Michigan Court of Appeals decision in *Goldfish Swim School v Aqua Tots* highlights the challenges employers face when enforcing non-compete agreements.

Steven Ogg worked part-time for Goldfish Swim School as a swim instructor and later as a deck supervisor. When hired, he signed an Employee Confidentiality, Non-Disclosure and Non-Compete Agreement. The agreement precluded him from working for a competitor within a 20-mile radius of any Goldfish location for one year after ending his employment and from soliciting any Goldfish employees or customers for an 18-month period after separation. After Goldfish terminated his employment, Ogg began working for Aqua Tots, a direct competitor of Goldfish, in breach of his non-compete agreement.

Upon learning of his employment with Aqua Tots, Goldfish sued Ogg for breach of contract.

After some initial discovery and a hearing, the circuit court denied Goldfish's motion for a preliminary injunction and dismissed the lawsuit. The Court of Appeals affirmed the circuit court's decision.

With respect to the denial of the injunction, the Court of Appeals agreed that Goldfish had failed to prove it would suffer irreparable harm if a preliminary injunction did not enter. The court relied on the fact that Goldfish had no evidence that Ogg had shared its curriculum with Aqua Tots, taken any client contact information, solicited any Goldfish clients, or caused Goldfish any financial harm.

With respect to dismissal of the lawsuit, the Court of Appeals determined that the "current covenant executed with an entry-level employee did not protect a 'reasonable competitive business interest.'" Under Michigan law (MCL §455.774a), in order to be enforceable, a restrictive covenant must protect an employer's "reasonable competitive business interests" and it must be reasonable as to its duration, geographical area, and type of employment or line of business. The court rejected Goldfish's

argument that the non-compete agreement was necessary to maintain the confidentiality of its swim instruction method, which it characterized as a trade

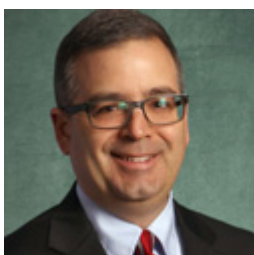
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Unlike its conclusion that the non-compete provision was unreasonable, the Court of Appeals concluded that the provision barring solicitation of Goldfish clients was reasonable. The court

nevertheless affirmed the dismissal of Goldfish's breach of contract claim because Goldfish had no evidence that Ogg had solicited any Goldfish clients in breach of the non-solicitation provision.

This case is a timely reminder that employers should give careful consideration as to which categories of employees they will require to sign a non-compete agreement. In making this determination, it is crucial that employers be able to articulate and prove the "reasonable competitive business interest" that they seek to protect with the non-compete. Employers should also consider whether a non-solicitation of customers provision, which is more likely to be enforced, is sufficient to protect their interests. Finally, to prevent employees from using or disclosing their trade secrets, employers should require all employees to sign a confidentiality and assignment of inventions agreement. *BHB Investment Holdings, LLC v Ogg* (unpublished, Michigan Court of Appeals No. 330045, Feb. 21, 2017).



About the Author. Christopher P. Mazzoli counsels employers on employment law. In the area of traditional labor law, he helps non-union employers avoid unions and unionized employers manage their relationship with their unions. Chris has presented at seminars on various employment law topics and has provided on-site training in areas such as sexual and other forms of illegal harassment, hiring and firing, and FMLA compliance.

Bodman's Workplace Law Practice Group:

Maureen Rouse-Ayoub
Co-chair, Workplace Law
313.392.1058
mrouse-ayoub@bodmanlaw.com

Aaron D. Graves
Co-chair, Workplace Law
313.392.1075
agraves@bodmanlaw.com

Rhonda H. Armstrong
248.743.6048
rarmstrong@bodmanlaw.com

John C. Cashen
248.743.6077
jcashen@bodmanlaw.com

Steven J. Fishman
248.743.6070
sfishman@bodmanlaw.com

Jason E. LaBelle
313.393.7578
jlabelle@bodmanlaw.com

Danielle C. Lester
248.743.6078
dlester@bodmanlaw.com

Christopher P. Mazzoli
248.743.6066
cmazzoli@bodmanlaw.com

Karen L. Piper
248.743.6025
kipper@bodmanlaw.com

Charles M. Russman
248.743.6039
crussman@bodmanlaw.com

Donald H. Scharg
248.743.6024
dscharg@bodmanlaw.com

David B. Walters
248.743.6052
dwalters@bodmanlaw.com