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SUPREME COURT

COMMONWEALTH OF KENTUCKY
KENTUCKY SUPREME COURT
NO. 2012–SC-000651

CHARLES T. CREECH, INCORPORATED APPELLANT

v.

APPEAL FROM KENTUCKY COURT OF APPEALS
CASE NO. 2011-CA-000629-MR
and
APPEAL FROM FAYETTE CIRCUIT COURT
ACTION NO. 09-CI-000779

DONALD E. BROWN and
STANDLEE HAY COMPANY, INCORPORATED APPELLEES

JOINT RESPONSE BRIEF OF APPELLEES, DONALD E. BROWN AND STANDLEE HAY COMPANY, INCORPORATED

CERTIFICATE OF SERVICE

The undersigned does hereby certify that copies of this Response were served upon the following named individuals by U.S. Mail, postage pre-paid, on this the 13 day of August, 2013: Hon. Kimberly N. Bunnell, Fayette Circuit Court Judge, 521 Robert F. Stephens Courthouse, 120 N. Limestone, Lexington, KY 40507; Vincent Riggs, Fayette Circuit Court Clerk, 103 Robert F. Stephens Courthouse, 120 North Limestone, Lexington, KY 40507; Sam Givens, Clerk, Court of Appeals, 360 Democrat Drive, Frankfort, Kentucky 40601; Hon. Carroll M. Redford, Hon. Don A. Pisacano and Hon. Elizabeth C. Woodford, Miller, Griffin & Marks, P.S.C., 271 West Short Street, Suite 600, Lexington, KY 40507, and by hand-delivery to: Susan Stokley Clary, Clerk, Kentucky Supreme Court, 700 Capitol Ave., Frankfort, KY 40601.

The undersigned does also certify pursuant to CD 76.12(6) that the record on appeal was ~~not~~ withdrawn by the undersigned, or by the party filing this brief.

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STATEMENT CONCERNING ORAL ARGUMENT

Appellees request oral arguments in this case. Oral arguments will be helpful to this Court in deciding the issues presented on appeal because this Court's opinion may depend largely upon the particular facts and/or procedural posture of this case. Further, oral arguments may be beneficial due to the significant public policy issues pertinent to the consideration of this case. Finally, the holding in this case will have wide-spread application throughout Kentucky in terms of how non-compete agreements are interpreted and in terms of how such agreements are drafted. Therefore, oral arguments are particularly appropriate.

STATEMENT OF POINTS AND AUTHORITIES

App. Item 3: Order of the Fayette Circuit Court granting temporary injunction.

App. Item 4: Order issued by the Court of Appeals on July 10, 2009 ("CTA 65.07 Order").

App. Item 5: Copy of CD of Trial Court hearing 22/9/11/CD/19.

App. Item 6: August 17, 2012 Order of the Court of Appeals ("CTA 8.17.12 Order").

App. Item 7: Donald E. Brown's Motion for Summary Judgment and supporting Memorandum.

App. Item 8: Standlee Hay Company, Inc.'s Motion for Summary Judgment and supporting Memorandum of Law.

App. Item 9: Standlee Hay Company, Inc.'s Reply to Creech's Response to Motion for Summary Judgment.

App. Item 10: Donald E. Brown's Reply to Creech's Response to Motion for Summary Judgment.

App. Item 11: Charles T. Creech's Response to Motion for Summary Judgment by Donald E. Brown.

App. Item 12: Charles T. Creech's Response to Motion for Summary Judgment by Standlee Hay Company, Inc.

App. Item 13: Kegel Court of Appeals Brief.

COUNTERSTATEMENT OF THE CASE

In accordance with CR 76.12(4)(D)(iii), Appellees, Donald E. Brown and Standlee Hay Company, Incorporated set forth those matters which they consider essential to a fair and adequate counter-statement of the case, as follows:

MATERIAL FACTS AND PROCEDURAL HISTORY

A. Donald Brown Employment History: Appellee, Donald E. Brown ("Brown"), was 54 years old when this litigation began, and he has lived in the Central Kentucky area his entire life. (RA 230-233 at paras. 1, 2). He has worked in the hay business since he was fourteen years old, long before he went to work for Appellant, Charles T. Creech, Inc. ("Creech"). (RA 230-233 at paras. 1, 2). From September 4, 1990 through October of 2008, Brown was employed by Creech, where he was at various times a delivery driver, a sales representative and dispatcher, and as such, was responsible for accommodating the sale and/or transport of hay to customers. (RA 230-233 at paras. 3, 4, 9). Brown's job responsibilities did not require any specialized training, degrees, certifications, or the completion of any apprenticeships. (RA 230-233 at para. 5). Moreover, Brown was not provided with any specialized on-the-job training. (RA 230-233 at para. 6).

During the course of his employment with Creech, Brown utilized the Kentucky Thoroughbred Farm Managers' Club Directory (the "Directory") to generate sales. (RA 230-233 at para. 7). The Directory is published each year and lists the names of, and contact information for, every horse farm in Kentucky that chooses to be included. (Directory, RA 486-488). The Directory was Brown's primary source to identify potential customers, and its contents are in the public domain. (RA 230-233 at para. 9.) The Directory is sold at the Keeneland Race Course gift shop, Pinkston's Leather Goods, the Kentucky Thoroughbred Farm Managers' Club office, and Joseph-Beth Booksellers in Lexington. (RA 486-488).

B. Conflict of Interest Agreement: Charles Creech is the President/CEO of Charles T. Creech, Inc. Approximately one month prior to July 20, 2006, Charles Creech's daughter, who had just begun working for Creech, announced that she expected all of Creech's employees to execute a document entitled "Conflicts of Interest" (the "COI Agreement") (RA 8-9, Ex. A, **App. Item 1**). The record does not reflect that Creech's daughter consulted legal counsel in the course of preparation of the COI Agreement. Though the COI Agreement purports to be two pages of a larger document, it was presented to Brown as a stand-alone document. Brown had no other written employment agreement with Creech. (RA 8-9, Exhibit A at para. 12). The COI Agreement purports to establish various company policies, including the non-competition provision at issue herein:

> **. . . We require that all employees agree and understand that after leaving the company they are not permitted to work for any other company that directly or indirectly competes with the company for 3 years after leaving Creech, Inc., without the companies [sic] consent.**

Brown did not sign the COI Agreement until July 20, 2006, after Charles Creech asked if he would sign it to "get my daughter off our backs." (RA 230-233 at para. 13). On the date Brown signed the COI Agreement, he had been actively employed by Creech for over sixteen (16) years, was working as a hay salesman, and received no additional consideration whatsoever. (RA 14-16, Exhibit C at para. 8).

C. Brown's Departure from Creech, Inc.: Shortly after Brown signed the agreement, Charles Creech's son took over all Brown's sales responsibilities, and Brown's employment classification changed from "salesman" to "dispatcher." (RA 230-233 at para. 14). Though his salary remained roughly the same, his responsibilities and stature changed dramatically. (RA 230-233 at para. 15). He no longer had consistent customer contact nor did he actively solicit sales. Instead, each day for the last eighteen (18) months before his resignation, Brown simply received a list of daily orders and was responsible for making sure that the orders were loaded on the truck and placed en route to the customer. (RA 230-233 at paras. 16, 17).

On or about October 17, 2008, Brown resigned from his employment with Creech to accept a position with Standlee Hay Company, Incorporated ("Standlee") as its Eastern Equine Sales Representative. (RA 230-233 at paras. 18, 20). Before resigning, Brown met privately with Charles Creech and explained his plans to work for Standlee, including that he planned to work as a salesman and that he intended to sell all Standlee products to farm managers and other customers in Kentucky and surrounding states. (RA 230-233 at para. 19). A series of letters, described below, followed, between Creech, Brown, Standlee, and their then-counsel.

On or about November 13, 2008, Timothy Feld (then counsel for Creech) sent a letter to Brown, acknowledging that Charles Creech had previously spoken with Brown regarding his employment with Standlee. (RA 10-11, Ex. B). In the November 13, 2008 letter to Brown and in a November 14, 2008 letter to Standlee, Creech expressly waived the purported employment prohibitions in the COI Agreement to allow Brown to work for Standlee. (RA 10-11, Ex. B and RA 47-49).

On behalf of Standlee, attorney Jeff Stoker replied to Mr. Feld in a letter dated November 17, 2008 (the "Stoker letter"). (RA 12-13, Exhibit B). The Stoker letter re-confirmed to Creech "what Standlee's plan is," precisely that Brown would: be employed as a salesman at Standlee; would contact any and all horse farms in Kentucky and the surrounding states; be given a list of horse farms in Kentucky; and that Brown planned to sell Standlee products to horse farms using the Directory as a source of leads for potential customers. (RA 12-13, Exhibit B; RA 234, Trial Court hearing, 22/9/09/CD/57 at 2:21:08, **App. Item 2**; RA 10-11, Exhibit B). No response was ever received from Mr. Feld or Creech, and during this time, Brown began working for Standlee, as Creech had conceded he could. Meanwhile, Creech apparently waited "to see what happened . . . to see if there have been any 'damages' . . . and 'til there had actually been a sale," and after Creech realized that Standlee would become a viable competitor, it initiated the present action in Fayette Circuit Court on February 16, 2009. (RA 234, Trial Court Hearing, 22/9/09/CD/57 at 2:34:05, **App. Item 2**).

D. Procedural History: Creech initiated the underlying action by filing a Verified Complaint and a Motion for Temporary Injunction on February 16, 2009. (RA 1-16, RA 20-22). On March 9, 2009, Brown and Standlee filed Motions to Dismiss and Responses to Creech's Motion for Temporary Injunction. (RA 52-73). Creech's first Motion for a Temporary Injunction was heard on March 18, 2009, but was overruled because the Circuit Judge announced she did not "believe this is the type of case where the court can infer and make a ruling as to what the territory is," and that the covenant not to compete was not enforceable. (RA 85, Trial Court hearing, 22/9/09/CD/37 at 10:40:30).

On April 13, 2009, Creech filed a Motion for Leave to Amend Complaint attaching its Amended Complaint thereto. Creech also filed its Response to Motion to Dismiss with the Circuit Court on April 14, 2009. Both Creech's Motion for Leave to Amend Complaint and Brown's and Standlee's Motions to Dismiss were heard before the Circuit Court on April 17, 2009. At the hearing, the Circuit Judge overruled Brown's and Standlee's Motions to Dismiss and announced a dramatic shift in her belief as to whether she had the authority to modify the covenant not to compete at issue in this case. (RA 147, Trial Court hearing, 22/9/09/CD/50). On April 23, 2009, the Circuit Court entered an Order granting Creech's Motion to Amend and denying the Motions to Dismiss.

In the interim, Creech renewed its Motion for a Temporary Injunction on April 16, 2009. Creech continued to assert that the Circuit Court could insert its own geographic scope therein to make the otherwise unreasonable, and thus, unenforceable clause, enforceable. (RA 127-146). In support, Creech pointed to a "blue-pencil test," which it argued under certain sets of fact *may* allow a trial court to *strike offensive and divisible provisions* of a non-competition clause within a contract for the sale of a business, without voiding the entire contract. (RA 127-146).

On April 30, 2009, the Circuit Court held another hearing on Creech's renewed Motion for a Temporary Injunction. During the hearing, the Circuit Court Judge reviewed a list of Creech's customers *in camera*, and heard testimony regarding what Standlee hired Brown to do, which was "to specifically target all the farms" that have their contact information publicly listed in the public Thoroughbred Farm Managers' Club Directory (herein the "Directory") to generate sales. (RA 234, Trial Court hearing, 22/9/09/CD/57 at 3:08:25 and 3:15:30). At this hearing, Creech offered no evidence that the COI Agreement made reference to any particular geographic scope or which tended to show that at the time the parties executed the COI Agreement, they contemplated any specific geographic scope that was reasonable under Kentucky law. (RA 234, Trial Court hearing, 22/9/09/CD/57). Nonetheless, the Court granted Creech's renewed Motion for Temporary Injunction, by writing the word "Kentucky" into the non-competition clause. (RA 244-251). See **App. Item 3,** hereto. The Temporary Injunction was entered by the Court on May 5, 2009.

Brown filed a Notice of Appeal from the May 5, 2009 Order with the Fayette Circuit Court on May 13, 2009 and Standlee filed its Notice of Appeal on May 14, 2009. Brown filed an Answer to Amended Complaint on May 15, 2009 and Standlee filed its Answer to Amended Complaint on May 20, 2009.

On May 26, 2009, Brown and Standlee each filed timely CR 65.07 Motions for Emergency Interlocutory Relief with the Court of Appeals. The Court of Appeals thereafter issued an Order on July 7, 2009 granting such relief ("hereinafter referred to as the CTA 65.07 Order"),[1] holding that the COI Agreement, including the non-compete clause, is invalid and unenforceable for the following reasons:

(a) **it is "legally unreasonable," because it "does not contain a geographic limitation"** (*citing* <u>Hodges v. Todd</u>, Ky. App. 698 S.W.2d 317, 318 (1985));

(b) in the instant case, **a trial court may not "establish a reasonable geographic limitation** based upon the intention of the parties at the time the contract was executed" **to "transform an otherwise unenforceable covenant not to compete into an enforceable one";**

(c) **it is unreasonable because "Brown worked for Creech for 16 years before being presented with the agreement** for which he received no additional compensation," **and because "Creech has made no claim that it expended time, energy, effort or money in training Brown"**;

(d) <u>and</u> generally that **it is "a covenant in restraint of trade"**. (RA 388-395 at 5-6).[2]

The CTA 65.07 Order also held that Creech "clearly waive[d] the [COI agreement] to the extent that it prohibited Brown from working for a competitor. (RA 388-395). See **<u>App. Item 4,</u>** hereto. In addition to the aforementioned rulings on pure points of law, the CTA 65.07 Order also stated that "[t]his was not a specialized field," and that Creech had failed to produce evidence sufficient to show that pricing information, horse farm lists, hay supplier information, farm managers names, cell phone numbers, etc. was proprietary and/or confidential information

[1] A Corrected Order Granting CR 65.07 Relief followed on July 10, 2009. (RA 388-395).

to warrant the Injunction. Creech thereafter filed a Motion to Vacate the Court of Appeals' 65.07 Order, which was denied on April 22, 2010. (RA 396-433; RA 436-485).

Brown and Standlee each filed Motions for Summary Judgment in the Circuit Court on November 10, 2010 and November 19, 2010, respectively, which set forth detailed arguments on why summary judgment was appropriate, and which extended beyond the pure fact that 65.07 relief was granted. Creech filed its response to Brown's and Standlee's Motions for Summary Judgment and a hearing was held before the Circuit Court on February 4, 2011. (RA 641-688, RA 835, Trial Court hearing 22/9/11/CD/19). At said hearing, the Circuit Court Judge emphasized that the Court of Appeals had spoken regarding whether she had the authority to modify the otherwise unreasonable, and thus invalid, non-compete agreement between Brown and his employer, Creech, and stated:

> [though] I still think I was right . . . I thought they [the Court of Appeals] did a thorough job of explaining why they respectfully disagreed with me . . . I don't think they could have been any more clear as to their interpretation of that agreement [the COI Agreement] . . . I don't think they could have been any more clear. They were pretty clear.

(RA 835, Trial Court hearing, 22/9/11/CD/19 at 8:55-8:56, **App. Item 5**).

The Circuit Court granted Brown's and Standlee's Motions for Summary Judgment and an Order reflecting the Circuit Court's rulings was ultimately entered on March 28, 2011.

Creech thereafter filed a Notice of Appeal on April 4, 2011 and an Amended Notice of Appeal on April 14, 2011, appealing the Circuit Court's grant of summary judgment. The Court of Appeals issued an Order on August 17, 2012, reversing in part and affirming in part, summary judgment (hereinafter referred to as the "CTA 8.17.12 Order"). See **App Item 6,** hereto. The Order held, in pertinent part:

> We conclude that Creech, Inc. was entitled to additional discovery to resolve the dispute and entry of summary judgment was premature

. . .

The general rule that covenants not to compete "are not enforceable where they are. . . . unlimited as to space but limited as to time," in the context of employment contracts has never been explicitly overturned.

. . .

[Footnote 2 to the CTA 8.17.12 Order] *But see* Hodges v. Todd, in which [the Court of Appeals] held "that the trial court had the authority to enforce [a noncompetition] covenant [which wholly omitted a geographical limitation] by establishing a reasonable geographical limitation based on the intention of the parties at the time the contract was executed. (citation omitted) **Hodges admittedly addressed only those noncompetition agreements which were part of a contract for the sale of business**. However given the persistent tendency of Kentucky courts to apply rules governing noncompetition agreements in the contracts of the sale of business to those included in employment contracts, and vice versa, **we believe it likely that the old rule that employment contracts whose covenants not to compete fail to state a geographic limitation are invalid is probably no longer the law;**

. . .

however, [the Court of Appeals] has arguably determined that the "blue pencil rule," extends to all provisions of a noncompetition agreement. Kegel v. Tillotson (citation omitted) ("[O]ur courts have adopted a 'blue pencil' rule, whereby we are empowered to reform or amend restrictions in a non-compete clause if the initial restrictions are overly broad or burdensome.").

The CTA 8.17.12 Order thereafter set forth the "proper approach" for determining the reasonableness of a covenant not to compete," which included a series of factors to be considered in nearly every case, as follows below, and remanded the case to the trial court for resolution of claims related to breach of the non-compete provision under this analysis.

. . . (1) the nature of the industry; (2) the relevant characteristics of the employer; (3) the history of the employment relationship; (4) the interests the employer can reasonably expect to protect by execution of the noncompetition agreement; (5) the degree of hardship the agreement imposes upon the employee, in particular the extent to which it hampers the employee's ability to earn a living; and (6) the effect the agreement has on the public.

With respect to each of these factors, it cited existing case law.

Contradicting its CR 65.07 Order, the Court of Appeals also reversed entry of summary judgment on claims related to the non-compete provision "to the extent [summary judgment] . . .

may have been premised upon the court's conclusion that the noncompetition agreement lacked consideration," this time citing Higdon Food Servs., Inc. v. Walker, 641 S.W.2d 750 (Ky. 1982), which it described as a "strongly criticized" case, for the notion that employer-employee agreements may be executed in exchange for continued employment. CTA 8.17.12 Order. With little explanation, the CTA 8.17.12 Order also reversed summary judgment on claims related to the non-compete provision to the extent summary judgment was based upon waiver. Finally, the Court also held that because Creech made no mention of the non-disclosure clause (or breach thereof) in its initial appellant brief, and because its first mention of the issue is in the final paragraphs of its reply brief, and because it failed to include a statement of preservation of the error as required by CR 76.12, that argument was not preserved or raised on appeal. The Court of Appeals relied on Catron v. Citizens Union Bank, 229 S.W.3d 54, 59 (Ky. App. 2006) ("Catron has not shown where and in what manner this argument was preserved for appeal. Furthermore, he raises it for the first time in his reply brief."). CTA 8.17.12 Order, fn 1.

Creech's Motion for Reconsideration was denied on September 26, 2012. It has now been over seven (7) years since Brown signed the COI Agreement and it has been four (4) years and ten (10) months since Brown left Creech. Appellants' Motion for Discretionary Review followed herein. Brown and Standlee filed a competing Motion for Discretionary Review, requesting review of different issues. Brown and Standlee have already filed a joint brief addressing said issues, and thus, discussion of those issues will be limited herein.

E. Response to Creech's Statement of the Case: Finally, in addition to the counter-statement of facts set forth above, Brown and Standlee specifically dispute the following statements set forth in Creech's Statement of Facts:

1. Brown and Standlee dispute Creech's unsubstantiated categorization of information Brown allegedly received during his employ with Creech as "confidential" or "proprietary". Despite Creech's full knowledge of the information its employees may access, the only evidence in the record regarding the type of information Brown obtained during his employ is set forth in the Affidavit of Charles T. Creech, who stated as follows:

> . . .
>
> 5. By virtue of his employment with Creech and through the performance of his job duties, Brown obtained confidential information regarding Creech's customers, including their names, contacts, addresses, office and cell phone numbers, supplier prices, customer prices, process being paid and customer supply needs.
>
> 6. Brown further obtained confidential proprietary information about Creech's business and operations.
>
> 7. Also in performance of his job duties with Creech, Brown had personal contact with most Creech customers and developed rapport with them. . .

However, simply calling this information "confidential" or "proprietary" is insufficient to sustain its claims, and does not suddenly infuse such information with the qualities of a protectable property right. Creech cites no authority to support its categorization of information allegedly obtained by Brown as either "confidential" or "proprietary". (RA 717-780).

The COI Agreement also does not define the terms "confidential" or "proprietary". Further, despite Creech's attempts to convince this Court that the COI Agreement prohibits Brown from disclosing the type of information mentioned in Charles T. Creech's Affidavit after termination of his employment, it does not. Rather, the COI Agreement prohibits disclosure of such information during the employee's employment with Creech, as set forth below in pertinent part:

<u>Conflicts of Interest</u>

The company requires that all ***employees*** strive to avoid any situation which does or may involve a conflict of interest between their personal interest and the interests of the company. Each ***employee*** has a basic obligation to promote the Company's best interests.

The following listing will serve as a guide to the types of activities which might cause conflicts of interest:

- Ownership by an employee or any member of her/his immediate family of a significant financial interest in any outside concern which does business with, or is a competitor of Charles T. Creech [sic] Inc. or Creech Services, Inc., except where such interest consists of ownership of listed securities of a publicly owned corporation or is approved by management

- **Providing information including but not limited to names, locations, types of purchases, contact names, or contact information about any or [sic] the company's customers, employees or suppliers with or without compensation without management's consent, or sharing any such information with anyone outside the company, especially with competitors or potential competitors**

- Directive, managerial or consultative services performed with or without compensation to any customer, supplier, or other outside concern which does business with or is a competitor of the company

- Acceptance by an employee or any member of his/her family of gifts of more than token value, loans (other than from established banking of financial institutions), excessive entertainment, or other substantial favors from any outside concern which does or is seeking to do business with the company or is a competitor of the company

- Representation of the company without the expressed permission of top management by an employee in any transaction, in which the employee or close relative, i.e., spouse, children, parent, brother or sister, has a significant interest

- **Competition with the company by an employee, directly or indirectly in the purchase or sale of products or services or property rights or interests either during employment or after leaving the company.**

- Obtaining or attempting to obtain any financial benefit from or arising out of a transaction to which the company is a party.

- Tampering with any product in a way that is detrimental to a customer, customer's property, or the relationship of a customer with the company.

App. Item 1.

The only reference within this section of the COI Agreement to any obligations of former employees is in reference to competition with Creech. Although Creech may have intended otherwise, there is simply no obligation imposed in this section upon former employees relevant to disclosure of information. Once again, the record does not reflect that Creech enlisted the services of counsel in drafting the COI.

Moreover, the only portion of the COI Agreement that addresses disclosure of information by former employees follows:

> All proprietary information will be held in strict confidence. As an employee of Creech, Inc. you will have access to sensitive company, customer and supplier information. Such information has been obtained through the over 25 years that the company has been in business and is, therefore, the property of Creech, Inc. ***If at any time, either during employment or after leaving the company, you share such information with competitors of other third parties, Creech, Inc. reserves the right to pursue all legal avenues*** to recoup damages as well as legal fees accrued in such legal action from the employee or former employee. **App. Item 1**.

There is no affirmative evidence in the record showing that Brown received any information during his employ with Creech that is protected by this provision or otherwise protected as "proprietary" under Kentucky law. Suffice to say, Creech held all the cards in its dealings with Brown and despite that power would ask this Court to rescue it from the purported harmful effects of its own shoddily drawn agreement.

2. Creech loosely claims that Brown was a "trusted and well-trained employee," implying that it provided some sort of specialized training or imparted some specialized knowledge upon Brown. However, despite the fact that Creech knows exactly what, if any, training it provided to Brown, and exactly what, if any, specialized knowledge they imparted upon him, there is no evidence of any such training in the record. In defense of Brown and Standlee's summary judgment motions, Creech did not allege Brown received a single

certification, that it sent Brown to a single class, that Brown served as an apprentice, or that he underwent <u>any</u> sort of learning process that was specific to Creech.

3. Brown adamantly disputes Creech's assertion that he was not demoted. The <u>only</u> evidence in the record is that he was demoted from his sales position to the position of a hay dispatcher. His sales position was filled by Charles T. Creech's son. These facts were not disputed by Creech below. Setting aside the fact that the only evidence in the record indicates Brown was demoted, it is simply not reasonable to argue the contrary. Brown's contact with customers and important revenue generating function was taken from him, and he was instead placed in charge of reading the orders and loading the hay on the trucks to dispatch. (RA 641-688; **<u>App. Item 7</u>**).[3] He went from a sales position in which he had significant discretion, to a position that primarily involved prescriptive and repetitive tasks. (RA 641-688; **<u>App. Item 7</u>**)

4. Brown and Standlee dispute Creech's misplaced attempts to link the date of Standlee's registration with the Kentucky Secretary of State to any significant issue in this case. Standlee's registration date not only bears no connection to the date on which it hired Brown, but Standlee's reliance on Brown as a trust-worthy, useful and/or a talented salesman, is wholly irrelevant to whether he acquired any information from Creech that was confidential and/or proprietary in the legal sense of those words, or to whether any such information was disclosed to Standlee. Finally, this alleged evidence was not presented for the trial court's consideration, and may not be introduced herein.

5. Brown and Standlee dispute Creech's assertions that the non-compete agreement had an "overly broad geographic scope". In fact, it had none.

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[3] Webster's dictionary defined the term "demot[ed]" as follows: "to reduce to a lower grade or rank" and/or "to relegate to a less important position".

6. Standlee disputes that it did not file a proper and timely Motion for Interlocutory relief under CR 65.07.

7. Brown disputes that he refused to answer Creech's discovery requests. In fact, he provided responses; however, based upon the Court of Appeals then-current rulings on specific points of law, the questions posed were irrelevant to the disposition of Creech's claims and not reasonably calculated to lead to discoverable information. Rather, it is believed that Creech's interrogatories were nothing more than gamesmanship aimed at discovering information about Standlee's business.

8. Creech implies that Judge Van Meter's ruling on Brown's Motion for Interlocutory Relief, the CTA 65.07 Order, was limited to a grant of such relief because there was not enough proof to warrant an injunction. On the contrary, Judge Van Meter's opinion ruled on several specific and pertinent points of law, which provided guidance to the trial court on the state of the law in Kentucky, and specifically on whether trial courts have authority to blue-pencil or reform the scope of employer-employee non-competes.

ARGUMENT

I. The Court of Appeals Properly Affirmed the Trial Court's Grant of Summary Judgment on Creech's Claims Involving Breach of the Non-Disclosure Provision of the COI Agreement.

Creech attempts to couch the CTA 8.17.12 Order as a drastic expansion of its requirement to preserve and then raise all errors (and/or issues and/or claims and/or arguments) it wishes to appeal. Such a characterization is inaccurate. Creech now asks this Court to ignore that it failed to precisely preserve and identify specific claims and arguments below <u>and</u> to ignore that it failed to include a statement of preservation of alleged errors to the Court of Appeals <u>and</u>

to ignore that it failed to address alleged errors in its appellant brief[4], which were necessary to any reversal of summary judgment on its non-disclosure claims. Further, Creech asks this Court to ignore the fact that, even if it had properly preserved and raised relevant issues for appeal, it was still proper for the Court of Appeals to affirm summary judgment on its non-disclosure claims, because Creech did not (and could not) present any affirmative evidence that Brown acquired any protected "confidential" or "proprietary" information during his employment with Creech. In other words, the result – summary judgment – is the correct one, and any error alleged by Creech herein, if any is found, is harmless.

In sum, allowing Creech to now proceed on its non-disclosure claims would be contrary to Kentucky law and rules of civil procedure, and to reverse summary judgment on such claims would also be contrary to the record.

A. Creech failed to Preserve Alleged Errors Associated with Summary Judgment on its Non-Disclosure Claims.

A question not raised or adjudicated below may not be considered on appeal. Combs v. Knott County Fiscal Court, 141 S.W.2d 859 (Ky. 1940); Benefit Ass'n of Ry. Employees v. Secrest, 39 S.W.2d 682, 687 (Ky. 1931); Hutchings v. Louisville Trust Co., 276 S.W.2d 461, 466 (Ky. 1955) (a "question of law which is not presented to or passed upon by the trial court cannot be raised here for the first time."); Com. Trans. Cab., Bureau of Hwys. v. Roof, 913 S.W.2d 322, 324 (Ky. 1996) (refusing to allow agency to challenge duty element of negligence for first time on appeal). This rule of law specifically "applies to bar a party from challenging a necessary element of a cause of action for the first time on appeal". Fischer v. Fischer, 348 S.W.3d 582, 588-89 (Ky. 2011) (*citing* Roof at 324).

[4] For clarification, this reference is to Creech's appellate brief to the Court of Appeals following summary judgment.

Further, in Fischer, this Court addressed the kind of specificity required to preserve an argument for appeal. Therein, John Fischer moved for a directed verdict, arguing that there was no valid agreement between the parties because he made a gratuitous promise, or in other words, the other party gave no valid consideration. Fisher at 586-87. Said motion was denied. The Court of Appeals thereafter reversed, holding that the agreement failed because John Fischer himself, not the other party, never gave valid consideration for the agreement. Id. The Court of Appeals reached its decision to reverse "in a circuitous fashion . . . determin[ing] that while [appellant] had not preserved this issue for appeal, it nonetheless had to consider the issue because [he] had argued ***generally*** that the contract was invalid and thus preserved any issue going to the validity of the contract". Id. at 586-87. This Court then granted discretionary review and reversed, holding that the relevant argument was not properly preserved for appeal. This Court explained that "a trial court should at least be given reasons why there is lack of consideration if a movant wishes to preserve the issue for appellate review". Id. at 588. ("This analysis applies equally where a party raised an issue to the trial court that differs substantially from the later raised on appeal").

The analysis in Fischer, and the specificity required therein, is applicable to this case. Creech may not present new defenses to the dismissal of its non-disclosure claims, which were not specifically and precisely raised and preserved below. More specifically, Creech may not wait until it files its Reply brief on appeal to articulate support for a necessary element – that Brown acquired any protected, "confidential" or "proprietary," information while employed by Creech -- of its claims. Such arguments and evidence, if any, must be raised and preserved in the trial court and then on appeal.

1. **Distinct Claims.** Creech's assertion that allegations related to breach of the non-disclosure provision are not separate claims is disingenuous. Creech specifically amended its original Complaint to include violations of the non-disclosure provision. It moved to file its Amended Complaint shortly after the Circuit Court originally opined that it did not "believe this is the type of case where the court can infer and make a ruling as to what the territory is," attempting to ensure that even if the non-compete provision was unenforceable, its new non-disclosure claims may survive. (RA 85, Trial Court hearing, 22/9/09/CD/37 at 10:40:30). More specifically, Creech's Amended Complaint added allegations at ¶9, that the COI Agreement prohibited "disclosure of proprietary information," and also amended Count II to include new allegations that Brown breached his "duty not to disclose proprietary information". Counts III (Intentional Interference with Contract) and IV (Aiding and Abetting breach of Contract) were also amended to allege that Brown and Standlee violated the non-disclosure provision.

Creech's stylistic choice to couch these allegations under the same headings ("Count II, Count III, etc.") does not alter the fact that they are distinct claims, with distinct elements of proof and distinct calculations of damages. For example, claims related to breach of the non-disclosure provision require, at least, proof that the contract is valid, proof that Brown acquired protected "proprietary" information that belonged to Creech, and proof that Brown disclosed that information. By contrast, claims related to breach of the non-competition provision require, at least, proof that the non-competition provision is not an unreasonable restraint of trade, proof of sufficient consideration to support an employer-employee non-compete agreement, and proof that Brown's new employment with Standlee was within the scope of the non-compete agreement provision.

Including alleged breaches of the non-disclosure provisions within existing counts of its original Complaint does not excuse Creech from defending its non-disclosure claims against Appellees' properly supported summary judgment motions, nor does it allow Creech to preserve specific and dispositive issues that are relevant only to its non-disclosure claims, by veiling them in generalized and generic objections.

As each claim has distinct elements and damages, it was important for Brown and Standlee, the moving parties, to present their grounds and support for summary judgment on each individual claim to the trial court. They did just that, and each claim was dismissed. (RA 641-688, 698-712, 783-834; **App. Items 7, 8, 9 and 10**). In fact, they specifically cited Progress Laundry Co., v. Hamilton, 270 S.W.834 (Ky. 1925), discussed in more detail below, in support of their position that Brown never received any protected, "confidential" or "proprietary" information, an essential element of Creech's non-disclosure claims. (RA 698-712; **App. Item 8**). It was equally important that Creech raise each defense it wished to assert in opposition to summary judgment, and that it respond by providing some affirmative evidence showing why it should be allowed to move forward on each of its claims.[5] Kentucky has long recognized this burden. In fact, in order to defeat a properly supported motion for summary judgment, Creech was required to (a) present at least some affirmative evidence to show that there are remaining issues of material fact relevant to all essential elements of each of its claims, including its non-

[5] In fact, it is not at all uncommon for summary judgment to be addressed claim-by-claim. Beasley v. Trontz, 671 S.W.2d 891 (Ky. App. 1954) (granting summary judgment on one count of the Complaint only); Baxter v. AHS Samaritan Hosp., LLC, 328 S.W.3d 687 (Ky. App. 2010) (affirming the trial court's grant of summary judgment on wrongful death claim only). Furthermore, partial summary judgment is frequently granted on certain claims and not others, or on certain elements of a distinct claim. Melton v. Melton, 221 S.W.3d 391, 392 (affirming trial court's grant of partial summary judgment on the enforceability of one clause of a claim, specifically that a clause within a document did not constitute an unreasonable restriction on alienation of property); Wilson v. Southward Inv. Co. No. 1., 675 S.W.2d 10 (Ky. App. 1984) ("It is entirely proper for the trial court to enter a summary judgment on part of the questions presented, and reserve for trial any remaining factual issue").

disclosure claims. Steelvest, Inc. v. Scansteel Service Ctr., 807 S.W.2d 476 (Ky. 1991) ("a party opposing a properly supported summary judgment motion cannot defeat it without presenting at least some affirmative evidence showing that there is a genuine issue of material fact for trial.") (*citing* Gullett v. McCormick, 421 S.W.2d 352 (Ky. 1967); Continental Casualty Company, 281 S.W.2d 914 (Ky. 1955)). Creech's citations to cases that address "issues" or "arguments" or "errors" on appeal does not alter this burden.

Similarly, in order to preserve its right to appeal summary judgment on each dismissed claim, Creech was required to present argument refuting each of Brown and Standlee's grounds for dismissal of each claim. Including, at least, each ground upon which the trial court may have based its ruling. The bases of the trial court's dismissal of Creech's non-disclosure claims are discussed in more detail below.

In this case, despite written briefs and a full hearing on the record, Creech failed to respond to Brown and Creech's Motion for summary judgment on its non-disclosure claims, choosing instead, only to present only those defenses that were relevant the non-compete provision. (RA 717-780, **App. Items 11 and 12**). As discussed in more detail below, Creech failed to address, in any detail, whether and why its claims that Brown breached the non-disclosure provision should not be dismissed. As discussed in more detail below, it also specifically failed to specifically respond to Brown and Standlee's arguments that it could not prove a crucial element of its non-disclosure claims.

2. Creech Failed to Properly Preserve Key Issues, Arguments and/or Errors for Appeal, which Regardless of its General Objections, Precludes Reversal of Summary Judgment on its Claims that Brown Breached the Non-Disclosure Provision of the COI Agreement.

Summary Judgment on Creech's non-disclosure claims was based upon the arguments set forth by Brown and Standlee in support of their Motions for Summary Judgment. If a trial court does not set out its specific ground for granting summary judgment on a claim, it is appropriate to presume that the court did so for the reasons set out in the summary judgment motion. Peoples Bank of N. Ky. Inc. v. Crowe Chizek & Co. LLC, 277 S.W.3d 255, 260 (Ky. Ct. App. 2008). Creech's attempt to persuade this Court that the summary judgment order in this case was based solely upon the binding nature of the CTA 65.07 Order, ignores the actual arguments set forth in the Motions for Summary Judgment and Replies filed by Brown and Standlee.

Yes, Brown and Standlee argued that the Circuit Court should[6] follow the CTA 65.07 Order, because it set forth clear rulings of law, including that "the type of information which Creech alleges Brown disclosed, was not actually proprietary". However, Appellees were extremely clear that entitlement to summary judgment was not premised upon the binding nature of the CTA 65.07 Order. (RA 783-788; **App. Item 9**). In fact, Standlee clarified in its Reply as follows:

> **Standlee has never contended that the Order of the Court of Appeals is binding on this Court as a final statement of the law of this case, and Standlee fully recognizes that this Court certainly retains the authority to make rulings inconsistent with that Order. But the more appropriate question here is *"Should it do so?"*, and that question is best answered by reviewing the Order itself.**
>
> Accordingly, while this Court certainly retains the power to make Standlee go through the exercise of once again addressing the enforceability of the Conflicts of Interest Statement before the Court of Appeals, in light of that Court's instructive analysis of the exact same question, ***there is no reason why this Court should do so.*** Progress Laundry Co. v. Hamilton, 270 S.W. 834, 837 (Ky. 1925).
>
> (RA 783-788; **App. Item 9**, p. 5).

[6] Brown and Standlee argued that the CTA 65.07 Order was either binding or persuasive authority on the rulings of law contained therein. (RA 641-688, 698-712, 783-834; **App. Items 7, 8, 9 and 10**).

They also set forth other, equal but more precise, bases for summary judgment on Creech's non-disclosure claims. Specifically, Brown and Standlee argued that summary judgment was appropriate in this case because, it would be impossible for Creech to prove that Brown received protected, "confidential" or "proprietary," information through his employment with Creech.[7] (RA 641-688, 698-712, 783-834; **App. Items 7, 8, 9 and 10**). This argument warranted a response from Creech sufficient to overcome summary judgment, or at least, to preserve its defenses and related errors for appeal. However, despite ample opportunity to respond in writing and at an hearing, Creech chose to only address arguments that the CR 65.07 Order was binding. Thus, Creech failed to address any of Brown and Standlee's arguments that they were entitled to summary judgment because Brown never received protected information. (RA 717-780, **App. Items 11 and 12**; 835, **App. Item 5**). Specifically, Creech failed preserve any legitimate argument that it met its burden of presenting at least some affirmative evidence that it Brown acquired legitimately "confidential" or "proprietary" information during his employ. (RA 717-780; 835); *See* Steelvest, Inc. v. Scansteel Service Ctr., 807 S.W.2d 476 (Ky. 1991). Preservation and appeal of that specific issue was necessary to any possible reversal of summary on Creech's non-disclosure claims.

Creech's general arguments that the CTA 65.07 Order was not binding were insufficient to preserve more specific issues for appeal. As previously stated, this court has long maintained

[7] Brown specifically alleged in its Motion and Reply that summary judgment was appropriate because: (1) there is no information in the record, save Plaintiff's affidavit, which tends to establish that the information allegedly used by Brown is, in fact, confidential and/or proprietary, which are legal terms and (2) that none of the information which Creech alleges Brown disclosed is actually proprietary; not pricing information, not horse farm lists, not hay supplier information, not farm manager's names, not cell phone numbers. (Reply; RA 783-834). Brown and Standlee also argued that the COI Agreement lacked consideration. Even Creech's response to that basis for summary judgment cited only to cases that discussed adequate consideration requirements for non-compete agreements.

that "[i]t goes without saying that errors to be considered for appellate review must be precisely preserved and identified in the lower court. Fischer v. Fischer, 348 S.W.3d 582, 588-89 (Ky. 2011); Skaggs v. Assad, By and Through Assad, 712 S.W.2d 947 (Ky. 1986) (*quoting* Combs v. Knott County Fiscal Court, 141 S.W.2d 859 (Ky. 1940)); See also, Schmidt v. Leppert, 214 S.W.3d 309 (Ky. 2007). Fischer at 588-89. Even if Creech were successful in persuading an appellate court that the trial court erred in holding that the CTA 65.07 Order was binding, that error is necessarily harmless because summary judgment was still appropriate on its non-disclosure claims, based upon other properly supported bases. In other words, because Creech failed to present any affirmative evidence that Brown received protected information (and that issue was not preserved for appeal), then such error is harmless.

Creech's general argument that summary judgment was premature is also equally insufficient. Fischer 588-89. In its Appellant Brief, Creech tries to re-articulate this general objection by asserting that the reason it was entitled to more discovery from Brown and Standlee was to determine whether Brown ever obtained protected, "confidential" or "proprietary," information. However, this argument lacks merit. The only discovery it sought from Brown and Standlee was related to what information may have been disclosed by Brown, an irrelevant inquiry without proof that he ever acquired protected information. (RA 689-690). Of course, all information about what information Brown acquired from Creech is, and always has been, within Creech's knowledge and possession. Allowing general arguments of prematurity -- without specifics regarding why additional discovery will allow an opponent to later prevail on each essential element of its claim(s) -- to preserve challenges to all necessary elements of all claims, is contrary to Kentucky law, and opens the floodgates to consideration of unpreserved arguments in nearly every case.

B. Creech Failed to Raise Issues Related to its Claims that Brown Breached the Non-Disclosure Provision in its Pre-Hearing Statement or in its Appellate Brief.

In order to seek reversal of summary judgment on appeal, Creech was also required to (a) comply with CR 76.03(4)(g),[8] by including statements of all claims and issues litigated, which will be addressed in its appeal; (b) comply with CR 76.12(4)(c)(v),[9] by including "references to the record showing whether the issue was properly preserved for review and, if so, in what manner;" and (c) raise <u>all</u> errors (and/or arguments and/or issues) necessary to the relief sought from the Court of Appeals in its appellate brief, including in this case, all errors necessary to a reversal of summary judgment on its non-disclosure claims. Creech failed to comply with each of these requirements, and each such failure is fatal to any appeal of its non-disclosure claims.

First, "[a] party shall be limited on appeal to issues in the prehearing statement except that when good cause is shown the appellate court may permit additional issues to be submitted upon timely motion". <u>Sallee v. Sallee</u>, 142 S.W.3d 697 (Ky. App. 2004) (holding that because the issue raised in the brief was not listed in the prehearing statement or in a timely motion seeking to submit the issue for good cause shown, the matter raised in the brief was not properly before the Court). Thus, Creech's failure to include a statement of preservation of these errors in its pre-hearing statement is, alone, fatal.

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[8] "(4) Within twenty days after filing the notice of appeal or notice of cross-appeal in the circuit court, each appellant and cross-appellant shall file with the Clerk of the Court of Appeals, with service on all other parties, a prehearing statement, on a form to be supplied by the clerk of the circuit court at the time the notice of appeal is filed, setting forth the following information:

. . .

(g) A brief description of the claims, defenses, and issues litigated;"

. . .

[9] (c) Organization and contents-Appellant's brief. The organization and contents of the appellant's brief shall be as follows:

. . .

(v) An "ARGUMENT" conforming to the statement of Points and Authorities, with ample supportive references to the record and citations of authority pertinent to each issue of law and which shall contain at the beginning of the argument a statement with reference to the record showing whether the issue was properly preserved for review and, if so, in what manner.

Creech also failed to articulate in its initial appellate brief, when and how it preserved its right to appeal dismissal of its non-disclosure claims or arguments that Brown ever acquired any proprietary information. Further, as the CTA 8.17.12 Order properly stated, Creech's failure to address relevant issues and statements in its Appellate Brief, as required by CR 76.12, is equally fatal. In fact, the first time it mentioned its non-disclosure claims on appeal was in its Reply brief. When an issue is raised for the first time in an appellant's Reply Brief, it is too late. Catron v. Citizens Union Bank, 229 S.W.3d 54, 59 (Ky. App. 2006) ("The reply brief is not a device for raising new issues which are essential to the success of the appeal.") (*citing* Milby v. Mears, 580 S.W.2d 724, 728 (Ky. App. 1979)). Thus, there is no basis to address its non-disclosure claims or related arguments, issues or errors now.

Creech now argues that it should either be excused from compliance with CR 76.12, or alternatively, that it somehow substantially complied with its purpose. First, Creech also points to Cornette v. Holiday Inn Exp., 32 S.W.3d 106, 109 (Ky. App. 2000) and Baker v. Campbell County Bd. of Educ., 180 S.W. 3d 479, 481 (Ky. App. 2005) to support its arguments that an exception should be made; however, these cases are procedurally distinguishable and address technical non-compliance in cases with virtually no record. Cornett nor Baker indicate compliance may be overlooked when the appellant also did not preserve the argument below or include it in its appellant brief. Second, Creech may not overcome its omissions by showing it substantially complied with the purpose of CR 76.12. Creech describes the purpose as nothing more than saving the appellate courts the time and trouble of canvassing the record.[10] However, Elwell v. Stone, 799 S.W.2d 46, 47 (Ky. App. 1990), also cited by Creech, emphasized that CR

[10] It also implies there is virtually no record to canvass, however we are four years into this litigation, and there have been numerous motions filed and several hearings before the Circuit Court, including substantial testimony.

76.12 is important to ensure that all "errors to be considered for appellate review [were] precisely identified in the lower court".

Creech has also argued that it "obviously" suffered a manifest injustice of the type contemplated by CR 61.02, because discovery on its non-disclosure claims was somehow "cut off," and that more discovery would have "obviously" resulted in a "dramatically different" result. (Creech's Appellate Brief, Court of Appeals DKT #12, p. 22). Such an assertion is misplaced, and ignores the common sense notion that all knowledge related to the alleged "confidential" or "proprietary" nature of information acquired by Brown, if any, during his employ, is and has always been within Creech's knowledge and possession. Creech is in the best position to know the nature of any information it claims it owns, or was created by it, or is specific to it, or in which it otherwise claims it holds a "proprietary" interest. No discovery will provide Creech with that information. Yet, it has litigated this matter for four and one-half (4 ½) years without presenting any affirmative evidence, even one real example, that Brown acquired <u>any</u> information that is not otherwise available in the industry or to the public. It has also failed to cite a single source of authority in support of its assertions that the information it calls "confidential" or "proprietary" -- including publically available names and phone numbers and now purportedly including "personal contacts and rapport" -- is actually entitled to any protection or actually meets that definition. (RA 1-889). Finally, as set forth in more detail below, even assuming Brown received all of the information alleged, Creech has shown no legitimate property or contractual right therein, and neither Kentucky law nor the COI Agreement prohibit Brown from disclosing such information after his employment has terminated.

C. Creech Failed to Present Any Affirmative Evidence that Brown Received Protected "Confidential" or "Proprietary" Information Belonging to Creech During his Employment with Creech on Appeal.

Setting aside the fact that Creech failed to properly and adequately preserve the claims and/or errors (and/or issues and/or arguments) discussed above, the trial court properly granted summary judgment because Creech has no property or contractual right to protect the type of information allegedly acquired by Brown from disclosure to third parties.

Information, even if gathered by an employee during his or her employment, is not protected as confidential or proprietary if it is public knowledge or if it is generally known in an industry. Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002 (1984) (excluding "information that is public knowledge or that is generally known in an industry" from protected confidential information or trade secrets); United States v. O'Hagan, 521 U.S. 642, 654 (1997) (defining "confidential information" to include only that "property to which the company has a right of exclusive use"); Carpenter v. United States, 484 U.S. 19, 26 (1987) (defining "confidential information" as only that information "acquired or compiled by a corporation in the course and conduct of its business" and to which it has "the exclusive right and benefit"); Progress Laundry Co. v. Hamilton, 270 S.W. 834, 835 (1925) ("A process commonly known to the trade is not a trade secret and will not be protected by injunction"); Birn v. Runion, 310 Ky. 805, 808-09, 222 S.W.2d 657, 658-59 (1949) (affirming dismissal of claims based upon the holding in Progress Laundry, and stating that "[t]he names of these persons, firms or corporations were necessarily matters of common knowledge.").

Equally, customer names, contacts and acquaintances, even when gained through experiences working for a former employer, are not considered protected "confidential" or "proprietary" property of the former employer. Progress Laundry Co. v. Hamilton, 270 S.W.

834, 835 (1925) ("mere knowledge of a list of customers, which is common and is essential and necessary to the prosecution of any business, would not necessarily be the product of any kind of special ingenuity, but rather that it is acquired because of other facts common to all commercial activities and trades and without which none of them would succeed."). If such information was, as Creech now asserts, considered to be protected property of a former employer, then the "inevitable result . . . would be that a salesman would be forever barred from selling to a customer whose acquaintance he formed during his first employment."). In Progress Laundry, this Court explained:

> A person who leaves the employment of another has the right to take with him all the skill he has acquired, all the knowledge that he has obtained, and all the information that he has received, so long as nothing is taken that is the property of the employer. Trade secrets are the property of the employer and cannot be taken or used by the employee for his own benefit, ***but customers are not trade secrets.* They are not property. . .**
>
> Written lists of customers may be property, but the defendant did not take any such list. ***Skill and knowledge acquired or information obtained cannot be left behind so long as those things exist within the mind of the employee. All that knowledge, skill and information, except trade secrets, become a part of his equipment for the transaction of any business in which he may engage, just the same as any part of the skill, knowledge, information or education that was received by him before entering upon the employment.*** Those things cannot be taken from him, although he may forego them, forget them, or abandon them.

Progress Laundry at 836.[11]

The record in this case reflects that contacts for horse farms customers at issue herein are listed in a publically available Thoroughbred Farm Managers' Guide, and are otherwise available

[11] *See also* Am. Cleaners & Dyers v. Foreman, 252 Ill. App. 122, 133 (Ill. App. Ct. 1929) ("we are not willing to hold that in any ordinary business an employee, on going into business for himself or into the employ of another, should be enjoined from seeking to do business with friends he has made in the course of a previous employment, merely because he became acquainted with them while so engaged. ... Under such a rule, a traveling salesman, every time he changed employers, if in a like business, would be compelled to give up all the friends and business acquaintances made during the previous employment. Such a rule would tend to destroy the freedom of employees and to reduce them to a condition of industrial servitude.") and Excelsior Laundry Co. v. Diehl, 32 N.M. 169, 252 P. 991, 993 (1927) ("The list of customers on a 'laundry route,' being obtainable by a rival concern merely by observation, is not a trade secret, to be protected as such by a court of equity").

within the industry, if not to the public-at-large. (RA 195-233). Additionally, the idea that another person's cell phone number constitutes proprietary information belonging to Creech is misplaced, and Creech has provided no authority for the protection of such information. Finally, even the type of hay a supplier sells is necessarily known within the industry, assuming the goal of that supplier is, in fact, to sell its product. Again, there is no evidence in the record to support that Creech holds any property or contractual right in such information.

Creech has provided no affirmative evidence that any of the information it alleges Brown acquired while working for Creech is actually "confidential or "proprietary". Further, as much as Creech attempts to make it an issue, whether Brown disclosed any such information is irrelevant.[12]

The non-disclosure provision of the COI Agreement also does not provide any additional protections for the information Creech claims is "proprietary" or the type of information that a former employee is prohibited from disclosing. As discussed briefly in the Counterstatement of Facts, above, there are three (3) major flaws with Creech's allegations that the COI agreement prevents former employees like Brown from disclosing "names, contacts at various farms, office and cell phone numbers, suppliers, supplier prices, customer prices . . . unique customer supply needs and desires . . . [and] contacts and rapport with Creech's customers" (Creech's Appellate Brief, p. 1). First, the only mention of such information within the COI Agreement is contained within the "Conflicts of Interest" section thereof, which refers to duties of <u>current</u> employees, nor former employees. Second, the non-disclosure provision of the COI Agreement fails to define the term "proprietary," or to define what information may not be shared ("If at any time, either during employment or after leaving the company, you share <u>such information</u> . . ."). Finally,

[12] Specifically, Creech argues that it was entitled to additional discovery to find out what information was disclosed by Brown to Standlee or Third-Parties, however, it is irrelevant because Creech has not proved any property or contractual right therein.

the only prohibition against disclosure within the non-disclosure provision is against "shar[ing] such information with competitors of third parties". Once again, regardless of whether that language was intentional or not, that was how the provision was drafted by Creech.

In sum, even if Creech had preserved the relevant necessary defenses to summary judgment on its non-disclosure claims below, and properly raised them on appeal, the result would still be the same. It was proper for the Fayette Circuit Court to grant summary judgment on Creech's claims that Brown breached the non-disclosure provision, it was proper for the Court of Appeals to affirm the same, and this Court should again affirm.

II. The Court of Appeals Erred in Reversing the Trial Court's Grant of Summary Judgment, and in Remanding this Case for Evaluation Under the "Series of Factors" Test.

Brown and Standlee take no particular position herein regarding the format or substance of the "Series of Factors Test" set forth by the Court of Appeals in the CTA 8.17.12 Order. In fact, the "Series of Factors Test" relies entirely on existing case law that should already be applied by trial courts' when the enforceability or unenforceability of a non-compete is not obvious from its face. Creech's arguments overlook that the factors enumerated in the CTA 8.17.12 Order are not new, but rather, were previously applied by this Court in a number of non-compete cases. Central Adjustment Bureau, Inc. v. Ingram Assocs., Inc., 622 S.W.2d 681, 685-86 and Higdon Food Servs. v. Walker, 641 S.W.2d 750, 752 (Ky. 1982), Hammons v. Big Sandy Claims Serv., Inc., 567 S.W.2d 313, 315 (together expressing that **nature of the industry** is an appropriate factor in the analysis of a non-competition agreement); Central Adjustment Bureau at 686 and Hammons at 315 (together expressing **characteristics of the employer** is an appropriate factor in the analysis of a non-competition agreement); Crowell v. Woodruff, 245 S.W.2d 447, 450 (Ky. 1951) and Central Adjustment Bureau at 686 (together expressing that **history of the relationship between the employer and employee** is an appropriate factor in the analysis of a non-competition agreement); Crowell at 449 (expressing that **interests the employer seeks to protect** is an appropriate factor in the analysis of a non-competition agreement; Crowell at 449-50 and Hammons at 315 (together expressing that **hardship on the employee** is an appropriate factor in the analysis of a non-competition agreement; Willard & Woolsey, P.S.C., 471 S.E.2d 316, 318 (Ky. 1971) and Central Adjustment Bureau at 686 (together expressing that **impact on the public** is a factor in the analysis of a non-competition agreement); CTA 8.17.12 Order, p. 10, fn. 4 ("This opinion is not the first to recognize or apply these factors, but only the first to express them together in this manner").

It is important, however, that the Court of Appeals expressly noted that **"[n]ot all of the categories or all questions within a category which are identified in this portion of the discussion must be addressed in every inquiry; our list of factual circumstances which may bear on each factor is neither mandatory nor exhaustive.** Rather, as we stated before, the trial court's approach must be flexible depending on the parties and their circumstances." CTA 8.17.12 Order at 12, fn. 5. Thus, the "Series of Factors" test is clearly intended to give guidance, not create an invariable mandate. The CTA 8.17.12 Order clearly recognizes that there may be some non-competes so obviously unenforceable, that the trial courts need not consider some or all of these factors. This is such a case.

Brown and Standlee maintain that such an inquiry, regardless of any need for the same or any clarity it may provide, is not pertinent to this case. The agreement at issue herein requires no fact-based inquiry, because under Kentucky law, the non-compete at issue herein is invalid and unenforceable on its face, because it contains no geographic scope. Further, Brown and Standlee maintain, as it did in its own Appellant Brief (12-CA-000693) that Kentucky law does not authorize the trial court to reform said non-compete by writing in a geographic scope.

A. The Covenant Not to Compete Between Brown and Creech is Invalid and Unenforceable on its Face Because it Contains No Geographic Scope.

Creech does not dispute that the COI Agreement contains no geographic scope whatsoever, and in its earlier CTA 65.07 Order granting from temporary injunction, the Court of Appeals properly recognized that "the only intent implicit from the facts [-- including the COI Agreement itself --] is Creech's intent that none of its employees leave its employ and work for a direct or indirect competitor for a period of 3 years after termination. (RA 388-395; *See also* RA 234, Trial court hearing 22/9/09/CD/57 at 3:62:50, **App. Item 2**).

It is still good law in Kentucky that non-compete agreements (between employers and employees) without any geographic scope are invalid and unenforceable, because they are unreasonable restraints of trade. Calhoun v. Everman, 242 S.W.2d 100, 102 (Ky. 1951) ("[t]he general rule is that contracts in restraint of trade are not enforceable . . . where they are unlimited as to space but limited as to time."); *See also* Hodges v. Todd, 698 S.W.2d 317, 318 (Ky. App. 1985) (*citing* this general rule and making an exception in the context of sale of a business). **("The general rule that covenants not to compete are not enforceable where they are . . . unlimited as to space but limited as to time in the context of employment contracts has never been explicitly overturned")).** (RA 388-395; DKT #33, **App. Item 6**).

In Calhoun v. Everman, 242 S.W.2d 100 (Ky. 1951), the Court was confronted with facts wherein Everman sought to enjoin his former employee from "either directly or indirectly, for himself, or any other person, firm or corporation, in any way enter[ing] into competition in the aforesaid business of dry cleaning and laundry with [Everman]". Id. at 102. Emphasizing the greater degree of certainty that is required in the terms of a contract to be specifically enforced than in a contract that supports an action for damages, the Court held that the covenant not to compete was invalid as a contract in restraint of trade. Id. at 103. The Court expressly stated that ***"[t]he general rule is that contracts in restraint of trade are not enforceable . . . where they are unlimited as to space but limited as to time."*** Id. at 102 (citations omitted). The Court further emphasized that ***the inclusion of a "reasonable territory" is the most important factor in determining whether a covenant not to compete is valid*** when it stated that even if "contracts are unlimited as to time but are confined to a reasonable territory, they are enforceable." Id.

Wholly dispositive of the case at bar is the fact that ***the non-compete provision at issue herein contains absolutely no geographic limitation as to its scope.*** Instead, said non-compete provision broadly prohibits employees from "work[ing] for any other company that directly or indirectly competes with the company for 3 years after leaving Creech, Inc. without the companies(sic) consent." **App. Item 1**. The scope of employment prohibited by this agreement is potentially all-encompassing, because it prohibits former employees - - even those like Brown who have no specialized skills, no technical knowledge, and limited, if any, recent customer contact - - from seeking employment with any other company throughout the world, the efforts of which may have any detrimental impact upon Creech's profits. The determination as to which companies, country or world-wide, might "directly," or moreover, "indirectly compete with" Creech is highly subjective and overly broad. Even if Creech had some unilateral idea of what geographic scope it intended to restrain, the agreement provides no guidance to Brown or Standlee regarding its geographic limits.

Frankly, though less extensively briefed in this litigation, the non-compete agreement is equally untailored as to the nature of the work being restrained (job responsibilities restrained;

industries restrained; contact or conduct restrained, etc.),[13] which only adds to the conclusion it is an unreasonable restraint of trade that cannot be enforced under Kentucky law as it exists today.

In sum, the non-compete provision at issue herein is fatally defective as drafted and is unenforceable on its face. Further, as discussed in more detail below, this is not the type of agreement that can be revised by what is typically referred to as the "blue-pencil rule," and neither current Kentucky law nor sound public policy support granting trial courts' liberal authority to completely reform non-compete agreements between employers and their employees. Thus, without a valid and enforceable non-compete agreement, the trial court properly granted summary judgment and the Court of Appeals erred in reversing summary judgment on Creech's non-compete claims.

B. The Trial Court Should not be Authorized to Use a Blue-Pencil or Otherwise Reform a Non-Compete Agreement Such as the One Between Brown and Creech.

In its CTA 8.17.12 Order, the Court of Appeals noted that it had "arguably determined that the 'blue-pencil rule' extends to all provisions of a non-compete agreement," which may include geographic scope, and that this rule may apply to non-competes between employers and their employees. (DKT #33, CTA 8.17.12 Order, **App. Item 6** (*citing* Kegel v. Tillotston, 297 S.W.3d 908 (Ky. App. 2009)). A comprehensive discussion of why Kentucky law does not, and should not, authorize trial courts to apply the "blue-pencil rule" or otherwise reform employer/employee non-compete agreements (including why Kegel is inapplicable to the current case) follows below. However, it is first important to note that the non-compete provision at issue herein is simply not the type of provision that can be cured by applying what is traditionally referred to as the "blue-pencil rule". Typically, the "blue-pencil rule," named as

[13] The non-compete agreement purports to restrain Brown from any type of work at any company aimed to directly or indirectly compete with Creech regardless of whether Brown's new position would relate in any way to the type of work he did at Creech.

such for blue pencils once used in copy editing, is only applicable when a Court is faced with a provision that includes both an unreasonable restraint on trade (a/k/a an "offensive" term) <u>and</u> another narrower reasonable restraint, which are "divisible" from one another by striking the offensive term with the blue pencil. 54Am. Jur.2d Monopolies and Restraints of Trade Sec. 963. Blue-pencil rule.[14] What remains then, after use of the "blue-pencil" is a reasonable, enforceable term (time scope; geographic scope; scope of the job type restrained, etc.), which was already contemplated by the parties and which had always appeared within the language to the agreement itself. The "blue-pencil rule" is intended to be used as a tool to strike unreasonable, devisable terms from an agreement; however, it is not intended to be used to <u>**add**</u> terms to an agreement.

The non-compete agreement between Brown and Creech simply, broadly and unreasonably states that Brown may not "work for any other company that directly or indirectly competes with [Creech] for three (3) years after leaving Creech . . ." As much as the trial court or the Court of Appeals may want to strike this offensive language with a blue-pencil and leave behind, instead, a divisible and reasonable geographic scope, a more reasonable geographic scope was simply never contemplated, negotiated or written into the agreement. This is just not the type of divisible provision that can be cured by the traditional "blue-pencil rule."[15] The

[14] ". . . the 'blue-pencil rule,' was adopted from the first Restatement of Contracts and provides that unreasonableness of any non-divisible term of a covenant not to compete renders the entire covenant unenforceable. Although courts may not add terms or re-write provisions to covenants, courts will 'blue-pencil' restrictive covenants, eliminating grammatically severable, unreasonable provisions. Where the restraint imposed is in excess of what is reasonable and the terms of the agreement indicate no line of division that can be marked with a blue-pencil, courts applying this standard hold the whole contract to be illegal and void".

[15] As evidence of the indivisible nature of this agreement and the fact that it is not the type of agreement contemplated under the traditional "blue-pencil rule," the Fayette Circuit Court thoughtfully began the original temporary injunction hearing, at which it eventually cured the non-compete agreement by inserting the word "Kentucky" where no geographic scope existed, by stating as follows:

traditional "blue-pencil rule" is the more widely-used, and less radical approach to curing unreasonable non-compete agreements and it is the only approach that is even vaguely referenced in Kentucky jurisprudence in the context of an employer/employee non-compete.[16]

Rather, in order to enforce the non-compete agreement between Brown and Creech, a trial court would have to be granted authority not only to strike offensive and divisible provisions consistent with the "blue-pencil rule," but also to completely re-write or "reform" the agreement. Granting such authority would require a significant expansion of Kentucky law, far beyond confirming authority to use the traditional "blue-pencil rule". Such authority would require Kentucky to join the ranks of the most liberal states, to allow complete and unabashed re-writing of non-compete agreements between employers and their employees whenever an employer attempts to enforce a wholly unreasonable restraint on trade. Allowing trial courts to reform employer-employee non-competes however they see fit is inconsistent with Kentucky law, which has long recognized the unique nature of employer-employee non-competes. Further, such a liberal expansion could have real consequence in terms of restraining the continual employability of Kentucky workers, and would also abandon a long-standing express desire in Kentucky law to strike a reasonable balance between protecting legitimate interests of employers and rights of employees. These policy considerations are discussed in more detail below.

> [I am] prepared to impose on a temporary basis a geographic limitation but I [am] needing information, I don't want to just randomly say you know, Fayette County, nor do I want to say Kentucky, or Kentucky and all states that touch Kentucky, or all [Creech's] current customers, so I don't want to just do that because I don't have any concept of what that really means." RA 234, Trial Court hearing 22/0/09/CD/57 at 2:00:09.

Nonetheless, the trial court believe[d] that [it could] do that . . . even though the agreement leaves no boundaries whatsoever. RA 234, Trial Court hearing 22/9/09/CD/57 at 03:26:50, **<u>App. Item 2</u>**.

[16] As discussed in more detail below, and briefly setting aside arguments that discussion regarding the "blue-pencil rule" in <u>Kegel</u> is merely dicta, the agreement at issue therein was, unlike in this case, the type of agreement in which the offensive provisions could arguable be struck with a blue-pencil to leave behind language that formed a reasonable, and thus enforceable, restraint.

Importantly, there are no published decisions of this Court which authorize trial courts to utilize the "blue-pencil rule" or to more liberally reform unreasonable restraints of trade between an employer and its employee. More specifically, this Court has never authorized trial courts to insert a geographic scope into a non-compete agreement between an employer and its employee when the language of the agreement wholly omits the same. Creech's arguments for re-writing the agreement rely purely upon: (1) brief dicta referencing possible use of the "blue-pencil rule" contained within Kegel, a distinguishable case that was decided by the Court of Appeals during the pendency of the current case; and (2) its own desire for this Court to liberally expand Kentucky law with the collateral effect of curing the shortcomings of the agreement Creech drafted. With due respect to the Court of Appeals, even its August 17, 2012 Order is tentative, because this Court, has, understandably, never granted trial courts such broad authority to reform and enforce unreasonable restraints on trade in the context of employer/employee agreements.

1. Non-Compete Agreements Between an Employer and its Employee are Unique and are Distinguishable from those Incident to the Sale of a Business.

Creech does not dispute that this is a non-competition agreement between an employer and its employee, rather than incident to the sale of a business. (Affidavit of Charles T. Creech, RA 14-16, **App. Item 3**, Ex. C at paras. 3, 4 and 8). This is a critical distinction with respect to Kentucky law, which is still applicable to, and dispositive of, this case. This distinction is not novel; it is a long-held tenant of Kentucky law.

Even Hodges, upon which the Court of Appeals relied in its CTA 8.17.12 Order, articulated this distinction. (DKT #33; Hodges at 319 ("Here, the sale of a business was involved, not simply the termination of an employer-employee relationship."). In Hodges, the parties agree that there was a valid contract for the sale of the Defendant's business. At issue was whether the trial court had "authority to enforce a noncompetition covenant ***contained in a [valid] contract for the sale of a business . . .*" even though it "failed to specify [a] specific geographical limitation." Hodges at 318. It is important that the anti-competition provision in Hodges, is part of an agreement to sell a business, because what this Court really attempted to do in Hodges was to determine, based on the intent of the parties when the contract was made, precisely how much goodwill was sold to the plaintiff therein. In Hodges, this Court stated that "the plaintiff should always be permitted to show the actual extent of the goodwill that is involved and that the defendant has committed a breach within that extent," because he continued to use something that now belonged to the purchaser. Id. at 319. The Court went on to discuss that whatever goodwill was sold, constituted "over one-half of the $10,000 given for the business." Id.

This is quite a different determination than is required in the current case. This is a distinction that Hodges Court further and unmistakably articulates when it compares Calhoun, 242 SW2d 100 (1951) to Hodges, stating that ***"a critical distinction exists between the facts as stated by the Calhoun Court and the facts herein. . . . because [h]ere, the sale of a business was involved, not simply the termination of an employer-employee relationship."*** Id. at 319.

Similarly, in Crowell v. Woodruff, 245 S.W.2d 447 (Ky. 1951), the Court clearly stated: "Let it be borne in mind that covenants restrictive of future employment are not viewed with the same indulgence as those between a vendor and a vendee of a business and its goodwill where there arises an unjust competitive encroachment." (*citing* Ky. Jur. Contracts §12-6 (2001); See also 17A C.J.S. Contracts §258 (2007)). ("A distinction is made between covenants as incident to an ordinary commercial transaction involving the sale of a business or the transfer of property, and such covenant as incident to an employment contract . . . [and] ***covenants in restraint of***

trade in employment contracts are not viewed by the courts with the same indulgence as are such covenants in connection with the sale of a business or a transfer of property . . . ."). This the same distinction was also later made in Hall v. Woolsey, 471 S.W.2d 316 (Ky. App. 1971), when the court stated that "in gauging reasonableness [of a covenant not to compete], ***there is a distinction between a covenant ancillary to the sale of a business and to a contract of employment".*** In its CTA 65.07 Order, which followed extensive briefing by the parties hereto on this specific issue, the Court of Appeals originally, and properly, accepted this distinction, stating: ". . . Hodges is distinguishable as the covenant at issue was ancillary to the sale of a business and the court took into consideration the amount of the purchase price as evincing (sic) the intent of the parties to sell the goodwill involved". (RA 388-395). Not only is this a long-standing distinction in Kentucky law, but it is an important one from a public policy standpoint, the details of which are discussed in more detail below. It should not be disrupted now.

Ceresia v. Mitchell, 242 S.W.2d 359 (Ky. 1951), upon which the Hodges court relied, also took place in the context of the sale of a business. In Ceresia, the Plaintiffs bought a wholesale fruit and vegetable business from the Defendants. Ceresia at 361. The Court held that in light of the relatively small value of the physical assets transferred, the sale price also clearly included the sale of the goodwill. Id. at 362. In Ceresia, the covenant not to compete had the effect of ensuring that the defendants were not still using the goodwill that it had just sold to the plaintiff. Since the contract of sale was "ineptly drawn," it was necessary for the court to determine exactly what amount of goodwill had been sold, and thus, what geographic scope was necessary to ensure that the seller was not still using such goodwill. Throughout this litigation, Creech has cited to a portion of Ceresia which discusses the reasoning behind "the best considered modern cases."

> In a good many cases it was held that if the contract itself indicated no geographical line between the reasonable and the unreasonable, it was 'indivisible' and illegal as a whole. Thus, ***if a seller promised not to compete*** anywhere in England the whole was void, but if he promised not to compete in London or elsewhere in England, partial enforcement was possible in case the business had extended throughout London.
>
> In very many cases the courts have held the whole contract to be illegal and void where the restraint imposed was in excess of what was reasonable and terms of the agreement indicated no line of division. In the best considered modern cases, however, the court has decreed enforcement as against a defendant whose breach has occurred within an area in which restriction would clearly be reasonable, even though the terms of the agreement imposed a larger and unreasonable restraint. ***Thus, the seller of a purely local business who promised not to open a competing store anywhere in America has been prevented by injunction from running such a store within the same block as the one that he sold.*** In some cases it may be difficult to determine what is the exact limiting boundary of reasonable restriction; but often such a determination is not necessary. The question usually is whether a restriction against what the defendant has in fact done or is threatening would be a reasonable and valid restriction. ***The plaintiff should always be permitted to show the actual extent of the goodwill that is involved*** and that the defendant has committed a breach within that extent. If a restriction otherwise reasonable has no time limit, it is quite possible for the court to grant injunctive relief for a specific and reasonable time. Ceresia at 362-63.

This portion of the Ceresia opinion begins with a discussion of the traditional approach, which favored automatically throwing out any non-competition provision if it contained an unreasonable geographic scope. Creech has been quick to assert that this traditional approach has changed, but fails to mention that Ceresia discusses such "modern changes" only in the context of the sale of a business. When Ceresia gives examples of the traditional approach and of "the best considered modern cases," it gives examples in the context of the sale of a business. As such, Ceresia can, at its broadest reading, only be said to stand for an extension of Kentucky law that allows the geographic scope of covenants not to compete to be modified when such covenant is between the buyer and seller of a business. Clearly, when the Court of Appeals decided Ceresia it was not contemplating such an extension of law in the context of an employee-employer relationship, especially one involving employees with no highly specialized skills or training. In fact, no real discussion of such a liberal extension has occurred, until this case. As discussed in more detail below, this important distinction has not been altered by the brief dicta expressed in Kegel v. Tillotson, 297 S.W.3d 908 (Ky. App. 2009), which is distinguishable and was decided by the Court of Appeals during the pendency of this action.

Thus, this Court's review of this case does not require a comprehensive review of the inquiry articulated by the Court of Appeals in its CTA 8.17.12 Order, or any other broad new holding. Only two undisputed facts are required to decide Creech's non-compete claims, (1) that the non-compete agreement contains no geographic scope and (2) that the non-compete at issue herein arises in the context of an employer-employee relationship, not in the context of the sale of a business, and thus cannot be modified. No other steps are necessary to find that the agreement between Brown and Creech is invalid and unenforceable, and thus, that the trial court properly granted summary judgment on all claims. Additional discovery will not reveal that any geographic scope existed within the language of the COI Agreement, or that Brown was not an employee of Creech. These facts have not changed and will not change.

2. Kegel is Distinguishable, Misinterprets Kentucky Law on Non-Compete Agreements Between Employers and Employees and is Inapplicable to the Instant Case.

In an understandable attempt to keep its claims alive, Creech relies upon Kegel v. Tillotson, 297 S.W.3d 908 (Ky. App. 2009), in its appeal of the Fayette Circuit Court's summary judgment order. Creech argued, based upon brief dicta therein (set forth fully below), that Kentucky has completely abandoned its long-standing principles, and that it has (or should) liberally extend trial courts' authority to wholly reform (or re-write) otherwise unreasonable restraints on trade between employers and their employees. Creech asserts that by mentioning the "blue-pencil rule," Kegel now gives trial courts broad authority to insert language into employer/employee non-compete agreements, even when that agreement completely omits a geographic scope, to make it suddenly reasonable and enforceable again. Creech's reading of Kegel is flawed, and with due respect, the Court of Appeals placed unwarranted emphasis on opportune dicta contained therein. Such an extension is contrary to this Court's prior and long-standing rulings, and presents significant real-world consequences. Kegel is also factually distinguishable from the current case.

First, Creech states in its appeal of summary judgment that Kegel concerns a non-compete agreement between a salesperson and a business, implying that it is also in the context of an employee/employer relationship that is akin to the relationship between Creech and Brown, and subject to the special relationship and imbalance of powers consistent therewith. However, the plaintiff in Kegel was actually the purchaser of a business whose prior owners had an existing non-compete agreement with the defendant. The primary issue argued by the parties on appeal was whether that non-compete had been assigned from the prior owner to the purchaser/defendant. Kegel at 911. The defendant was also not the prior owner's employee, rather she was an independent contractor who purchased products from the prior owner to sell to her own customers. Kegel at 909. This relationship is not at all akin to the relationship between Creech and Brown in the instant case, but is more in line with a determination of what rights Kegel actually purchased from the former employer. Kegel at 911. This clarification is important because when the Court of Appeals spoke in that case to the possibility that the trial court may be able to utilize the "blue pencil test," it did so without considering the differences between non-compete agreements in the context of the sale of business and in the context of an employer-employee relationship, and that issue was not briefed by the parties in Kegel. (Kegel Court of Appeals Briefs, RA 802-834; See **App. Item 13**, hereto).

Perhaps more importantly, the Court of Appeals' discussion in Kegel about potential use of the "blue-pencil test" was extremely limited. It did not constitute a precedential ruling on whether the "blue-pencil test" was now available in the context of employer/employee non-compete agreements, and surely its limited discussion does not present a wide-sweeping change in Kentucky law so liberal that trial courts may now wholly reform (or re-write) employer/employee non-competes that do not even attempt to include a geographic scope. Unlike in the present case, the distinction between modifying covenants not to compete incident to the sale of a business, versus in the context of an employer-employee relationship, was not substantively discussed or briefed therein. This is reflected in this Court's brief discussion of the "blue-pencil rule" in Kegel, the entirety of which follows:

> In addition, our courts have adopted a "blue pencil" rule, whereby we are empowered to reform or amend restrictions in a non-compete clause ***if the initial restrictions are overly broad or burdensome***. As stated by this Court in Hammons,[17] supra, at 315 '[w]here the courts have had no difficulty in restricting it to its proper sphere and enforcing it only to that extent." See also Ceresia v. Mitchell, 242 S.W.2d 359 (Ky. 1951).[18]
>
> Accordingly, we believe it appropriate to ***remand this matter to the court below for additional findings on the issue of unconscionability, as well as a determination as to what, if any, action is appropriate by the court under the "blue pencil' rule".***

[17] Hammons involved a non-compete agreement that restricted employment only within 200 miles of the plaintiff's business. The Court of Appeals did not rule in that case that the restriction, which was also extremely limited in terms of the job title, responsibilities, etc. it restricted, was necessarily unreasonable or unenforceable on its face. The brief dicta from Hammond that was relied upon in Kegel merely referred to the fact that the plaintiff pled only to restrict the defendant's employment within 200 miles from the location where he actually worked, rather than any real attempt to use a blue-pencil or otherwise reform the agreement. The case is devoid of any lengthy or substantive discussion of such issues, as is Kegel.

[18] As discussed herein above, Ceresia involved a non-compete agreement in the context of the sale of a business, not an employer/employee agreement.

Further, unlike the non-compete agreement between Creech and Brown, the non-competition agreement in Kegel was not completely devoid of a geographic scope. Rather it restricted competition as follows:

> upon termination of this contract the Contractor agrees that he/she shall not engage in the business of marketing, selling or taking orders for the purchase of promotional or advertising merchandise ***in the territory that the Owner sells merchandise, which is an area of at least three hundred fifty (350) mile radius from the Owner's business address, for five (5) years.***

The provision at issue in Kegel contained the type of divisible offensive provision that may be sticken by applying what is traditionally referred to as the "blue-pencil rule,"[19] as was discussed in more detail herein above. The non-compete provision at issue in the current case is instead, completely lacking any mention of a geographic scope whatsoever and its language gives no clues regarding what or whether any scope was contemplated by the parties when it was signed. Kegel simply is not authoritative in this case.

Further, regardless of whether the Court of Appeals has abandoned the sound ruling this Court issued in Calhoun, that "contracts in restraint of trade are not enforceable where they are . . . unlimited as to space but limited as to time," that case is still good law and should not be overruled by this Court. Calhoun at 102. Employers currently may not, and should not be allowed to, draft extremely unreasonable and invalid non-compete agreements that are clearly in restraint of trade, exchange those agreements for nothing more than continued employment (or a demotion in Brown's case), knowing that whenever the employment relationship ceases, a trial court will simply re-write the provision however it sees fit to shield its business against unwanted competition, no matter the cost to its former employee. That is precisely what Creech has attempted to do, and precisely what the Court of Appeals has tentatively said may be the new

[19] The term "the territory in which the Owner sells merchandise" can be divided from the more specific restraint "350 miles."

law of this Commonwealth. This would be a substantial expansion of trial courts' authority, would overrule long-standing rulings of this Court, and would not be sound public policy.

C. Any Expansion by this Court of Kentucky Trial Courts' Authority to Blue-Pencil or Reform Employer-Employee Non-Compete Agreements Should Not be Applied Retroactively against Brown.

Brown signed the COI Agreement over seven (7) years ago. Brown's employment with Creech terminated nearly five (5) years ago.[20] This litigation has been pending for four (4) years and six (6) months. In comparison, the time limitation set forth in the non-compete agreement that is at issue herein was only three (3) years.

Since Brown's employment with Creech terminated and he decided to work for Standlee, and certainly since Brown signed the COI Agreement, the Court of Appeals has established new principles of law that have a potential direct impact on the enforceability of the non-compete provisions of the COI Agreement. Specifically, through its CTA 8.17.12 Order, it significantly expanded trial courts' authority to blue-pencil and/or reform non-compete agreements between employers and their employees, though the extent of such authority is still not entirely clear.[21] Through its CTA 8.17.12 Order, it also established new principles of law regarding whether a non-compete agreement with no geographic scope can ever be enforceable. In doing so, it overruled clear past precedent, specifically pointing to its departure from the general rule under Kentucky law, that "covenants not to compete 'are not enforceable where they are . . . unlimited as to space but limited as to time' in the context of employment contracts".

[20] Browns employment with Creech terminated in October of 2008, approximately 4 years and 10 months before the filing of this Response Brief.

[21] The CTA 8.17.12 Order not only blurs the line between authority to blue-pencil non-compete agreements and the authority to reform such agreements, but it blurs whether any such authority exists at all when it states as follows: "The general rule that covenants not to compete 'are not enforceable where they are . . . unlimited as to space but limited as to time,' in the context of employment contracts has never been overturned; however this Court has arguably determined that the 'blue pencil rule,' extends to all provisions of a noncompetition agreement." CTA 8.17.12 Order, p. 8.

Finally, through the same CTA 8.17.12 Order, the Court of Appeals established new principles of law regarding whether continued employment alone, followed by a demotion, can provide adequate consideration for an employer-employee non-compete. This specific issue of apparent first impression was resolved by expanding the criticized ruling in Higdon Food Services, Inc. v. Walker, 641 S.W.2d 750 (Ky. 1982) the Court of Appeals effectively lowered the bare minimum consideration from the employee's retention of his or her position to retention of any position. The fact that the Court of Appeals has issued contrary rulings on each of these points of law in this case alone, speaks volumes about how its current rulings constitute new principles of law and about how such rulings could not have been foreshadowed by Brown at the time he entered into the COI Agreement or even at the time he left Creech to work for Standlee. Finally, should this Court decide to use this case to order a similar or broader expansion of Kentucky law, such rulings would equally constitute new principles of law that did not exist when Brown entered into the COI Agreement, or when his employment with Creech terminated. For the reasons set forth below, this Court may choose to apply any such expansions prospectively and not to this case.

There is a doctrine of equitable discretion in Kentucky when courts are faced with whether an appellate decision will be applied retrospectively or prospectively. In appropriate situations, this Court has the "inherent power . . . to give a decision prospective or retrospective application". Hagan v. Farris, 807 S.W.2d 488, 490 (Ky. 1991) (*citing* Payne v. City of Covington, 123 S.W.2d 1045 (Ky. 1938)). Specifically, this power is authorized when a decision establishes a new principle or law, either by overruling clear past precedent on which litigants may have relied or by deciding an issue of first impression whose resolution was not clearly foreshadowed, Leonard v. Com., 279 S.W.3d 151, 160 (Ky. 2009) (drawing a parallel between the discretion to apply appellate decisions retrospectively or prospectively in federal cases and under Kentucky law); Thomas v. Shipka, 829 F.2d 570, 573 (6^{th} Cir. 1987). Such discretion allows this Court to make rulings that expand, change or alter the state of the law, as appropriate, while avoiding an injustice or hardship in the particular case at hand. In Hagan, this Court clearly stated that "[i]t is further permissible to have a decision apply prospectively in order to avoid injustice or hardship".[22] Similarly, in Oliver v. Schultz, 885 S.W.2d 699 (Ky. 1994), this Court held that because that opinion "constitue[d] a critical change in the enforcement of restrictive covenants in Kentucky, it will be applied prospectively only."

In this case, when Brown agreed to sign the COI Agreement, Kentucky law followed the general rule that non-compete agreements with no geographic scope were unreasonable restraints of trade that could not be enforced. Further, Kentucky courts had never allowed the reformation[23] of non-compete agreements between an employer and its employee. Perhaps more pertinent, the same was true when Brown's employment terminated with Creech, and when he and Standlee (in consultation with its then-counsel) determined that the non-compete was not enforceable under Kentucky law. In reliance on a sound interpretation of Kentucky law as it existed in that time, Brown became employed by Standlee, and Standlee decided to offer him a position that allowed him to return to a sales position.

[22] Hagan specifically addressed a situation in which property rights were involved, however, other Kentucky cases, including Payne, on which the Hagan court relied, clarifies that discretion to apply holdings prospectively exists in a variety of contexts.

[23] At the time Brown signed the COI Agreement and at the time he left Creech, Kentucky courts had not been authorized to blue-pencil OR reform non-compete agreements between employers and employees (and arguably still are not). However, this distinction is not really necessary here, because what the Fayette Circuit Court did in this case was to actually reform (not merely blue-pencil, or cross out a divisible portion of) the non-compete provision. Reformation had clearly never been authorized by this court at the relevant times, and Brown had no way of predicting that such a change in the law could be applied to his agreement with Creech.

If this Court affirms the new rulings of law articulated in the CTA 8.17.12 Order, or if it determines that any vast expansions of Kentucky law urged by Creech are appropriate, any such expansions should be applied prospectively, and should not be applied to this case.

Finally, if this Court so chooses to remand this matter to proceed under the CTA 8.17.12 Order, it should not also reinstate the injunction, as requested in the last paragraph of Creech's Appellate Brief. Such an inquiry is not properly before this court at this time. Further, the reinstatement of a temporary injunction would require further factual analysis that would necessarily involve a consideration of the likelihood that Creech would succeed on the merits under the new "Substantial Factors Test".

III. Conclusion.

For the reasons set forth above, the Court of Appeals properly affirmed the trial court's summary judgment on Creech's non-disclosure claims of the COI Agreement. Not only did Creech fail to preserve defenses necessary to avoid summary judgment on these claims, but it failed to include the same in its pre-hearing statement or address the same in its appellate brief. It may not raise new defenses now. This Court should affirm the dismissal of all claims filed herein related to breach of the non-disclosure provision of the COI Agreement.

Moreover, the Court of Appeals erred in reversing summary judgment on Creech's non-compete claims because the non-competition clause at issue herein is an unreasonable and unenforceable restraint of trade and may not be reformed under current Kentucky law. This Court should reverse the Court of Appeals' August 17, 2012 Order, reinstate the August 11, 2012 Order of the Fayette Circuit Court granting Brown and Standlee summary judgment on all claims filed herein against them, and remand this matter to the Fayette Circuit Court to proceed only on the counter-claims of Brown and Standlee.

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