IN THE COURT OF APPEALS OF IOWA

No. 1-203 / 00-1189
Filed July 31, 2001

WHITE PIGEON AGENCY, INC.,
Plaintiff-Appellant,

vs.

CHRISTINE MADDEN and MADDEN ENTERPRISES, LTD.,
An Iowa corporation,
Defendants-Appellees.

FILED
JUL 31 2001
CLERK SUPREME COURT

Appeal from the Iowa District Court for Muscatine County, Max R. Werling, Judge.

Insurance agency appeals from the district court judgment entered in agency's action to enjoin its former manager from soliciting its clients and to recover damages for her breach of contract and for misappropriation of trade secrets by manager and her new employer. **AFFIRMED IN PART, REVERSED IN PART AND REMANDED.**

Mark L. Zaiger and Jennifer R. Clark of Shuttleworth & Ingersoll, P.L.C., Cedar Rapids, for appellant.

John A. Kuhl and Rachel R. Watkins Schoenig of Stanley, Lande & Hunter, Davenport, for appellees.

Heard by Sackett, C.J., and Vogel and Zimmer, JJ.

ZIMMER, J.

White Pigeon Agency, Inc., appeals from the district court judgment entered in an action brought against Christine Madden, White Pigeon's former co-manager, and her new employer, Madden Enterprises, Ltd. White Pigeon contends the court erred by (1) denying a permanent injunction on the grounds the agency has an adequate remedy at law; (2) limiting the three-year duration of the parties' non-compete agreement to one year; (3) setting off the agency's damages with damages allegedly sustained by Madden in the absence of a counterclaim or an agreement for set-off; and (4) dismissing the agency's claim under the Iowa Uniform Trade Secrets Act. White Pigeon seeks an award of appellate attorney fees. We affirm in part, reverse in part and remand the case for further proceedings.

I. Background Facts and Proceedings. Plaintiff White Pigeon Agency is an insurance agency selling insurance policies and products to individuals and businesses. White Pigeon is owned by White Pigeon Mutual, a county mutual association authorized to write insurance policies in five counties in southeastern Iowa.

White Pigeon employed defendant Christine Madden in its insurance agency from 1982 until the end of 1999. Madden and another employee, Barry Langley, executed contracts with White Pigeon in 1988 under which they became co-managers.

In August 1999, for reasons in dispute, White Pigeon informed Madden and Langley it was opting to terminate their contracts at year's end. Negotiations for new contracts with the co-managers ensued, but White Pigeon and Madden

did not reach an agreement and Madden left the agency on December 31,1999. She is now working full-time for defendant Madden Enterprises, Ltd., an insurance agency she formed with her husband in 1994 and of which she is a fifty percent owner.

White Pigeon filed a petition for injunctive relief in January of 2000, concerned that Madden was soliciting its clients from a policyholder list she had obtained in October 1999 while at the agency and was violating a non-competition agreement. White Pigeon sought to enjoin her from that activity, and also sought damages for claimed violations of the non-compete and non-disclosure provisions of the parties' 1988 contract, as well as for violations of her fiduciary duties and the Iowa Trade Secrets Act. The Trade Secrets claims were also brought against Madden Enterprises.

Following a hearing, the district court denied White Pigeon's request for temporary injunctive relief. Defendants then answered White Pigeon's petition, generally denying its claims and asserting several affirmative defenses. Defendants did not raise any counterclaims against White Pigeon. After trial on the merits, the district court denied White Pigeon's claim for injunctive relief, finding White Pigeon had an adequate remedy at law for breach of contract. The court also found the non-competition agreement was too oppressive and should be limited in duration to one year, rather than the three years provided in the contract. The court found Madden had violated the agreement by soliciting some of White Pigeon's clients after leaving the agency, but also found that White Pigeon had improperly terminated Madden, using the non-compete agreement in an effort to coerce her into accepting a new contract with reduced compensation.

The court found Madden had sustained damages from this, offsetting any damages sustained by White Pigeon. With respect to the trade secret claims, the court believed Madden's testimony that she had destroyed the policyholder list without revealing it to anyone. It thereby rejected the trade secret claims.

The court found Madden did breach her fiduciary duties in one instance by getting an account transferred from White Pigeon to Madden Enterprises while she was still a White Pigeon employee. The court awarded White Pigeon $9,925.45 on this claim, equal to one year's commission. The court dismissed all claims against Madden Enterprises.

White Pigeon appeals. It argues the district court erred by denying its request for a permanent injunction and in limiting the duration of the non-compete agreement to one-year. White Pigeon also claims the court erred in determining its damages are set off by damages sustained by Christine Madden. Finally, White Pigeon contends the court erred by dismissing its claims under Iowa's Uniform Trade Secrets Act.

II. Scope of Review. Our review for cases in equity is de novo. Iowa R. App. P. 4. While weight is given to the trial court's fact-findings, we are not bound by them. *Israel v. Farmers Mut. Ins. Ass'n. of Iowa,* 339 N.W.2d 143, 146 (Iowa 1983).

> We first review the grounds on which the trial court reached its decision, affirming if the decree can be supported on the bases relied upon by the trial court. In reviewing de novo, we will affirm if there is a proper basis for the decree entered by the trial court, even though the reasons for affirming are different from those upon which the trial court relied.

Id.

III. Injunction. White Pigeon first contends the court erred by denying its request for a permanent injunction because it will suffer irreparable harm if Madden is not enjoined from pirating its clients.

Injunctive relief is an extraordinary remedy that should be granted with caution and only when required to avoid irreparable harm. *Skow v. Goforth,* 618 N.W.2d 275, 277-78 (Iowa 2000). It is required only when the party requesting it has no adequate remedy at law. *Presto-X-Company v. Ewing,* 442 N.W.2d 85, 89 (Iowa 1989). The party seeking the injunction must establish "(1) an invasion or threatened invasion of a right, (2) substantial injury or damages will result unless the injunction is granted, and (3) no adequate legal remedy is available." *Skow,* 618 N.W.2d at 278. When considering whether to issue an injunction, the court must carefully weigh the hardship that the enjoined party would suffer upon awarding injunctive relief. *Sear v. Clayton County Zoning Bd. of Adjustment,* 590 N.W.2d 512, 515 (Iowa 1999).

Upon de novo review of the record, we find White Pigeon is entitled to injunctive relief. The evidence establishes that Madden invaded White Pigeon's contractual right to be free from her competition. Madden had a contract with White Pigeon that contained a covenant against competition. This non-compete agreement prohibited Madden from having any direct or indirect dealings with White Pigeon customers or clients. Despite the existence of this contract clause, Madden solicited White Pigeon customers both while she was still employed by White Pigeon and after she left. White Pigeon sustained damages as a result of Madden's competition. The issuance of an injunction is the only way that White Pigeon can be returned to the position it would have been in had Madden not

violated the non-compete agreement. *See Presto-X-Company,* 442 N.W.2d at 89.

Madden argues an injunction is not warranted because the covenant not to compete unreasonably restricts her rights. She argues enforcement of the covenant will impose an undue hardship on her. We disagree.

> Although it has been held that an injunction will not issue when the benefit to plaintiff is slight and the damage to defendant will be great, nevertheless it is clear that where there is a violation of a plain right of the complainant and his injury is regarded as irreparable, he is ordinarily entitled to an injunction even though the injury is relatively small as compared with the injury which the defendant will suffer as a result of the issuance of the writ.

Orkin Exterminating Co. v. Burnett, 259 Iowa 1218, 1227-28, 146 N.W.2d 320, 326-27 (1966). Furthermore, we note that nothing in the agreement prevents Madden from selling insurance. She may do so to persons who had not been White Pigeon clients. She may also sell to White Pigeon clients who reside outside the five county area prohibited in the agreement, and may sell to any White Pigeon customer after the three year time limit expires. Therefore, we find an injunction will not cause Madden an undue hardship.

Madden also argues an injunction should not be issued because the covenant not to compete is not necessary to protect White Pigeon. The employer has the initial burden of showing that enforcement of a restrictive covenant is reasonably necessary to protect its business. *Dental East, P.C. v. Westercamp,* 423 N.W.2d 553, 555 (Iowa Ct. App. 1988).

> To meet this requirement there must be some showing that defendant when he left plaintiff's employment, pirated or had the chance to pirate part of plaintiff's business; took or had the opportunity of taking some part of the good will of the plaintiff's business, or it can reasonably be expected some of the patrons or

> customers he served while in plaintiff's employment will follow him to the new employment.

Id. (citation omitted). We find this burden was met. In situations where an employee has extensive personal contacts with an employer's customers, personal loyalties develop which lead the customer to follow the employee upon termination of employment. *Id.* In Madden's case, such personal contacts existed and customers followed Madden to White Pigeon's detriment. Therefore, the covenant is necessary to protect White Pigeon. *See Federated Mut. Implement & Hardware Ins. Co. v. Erickson,* 252 Iowa 1208, 1215-16, 110 N.W.2d 264, 268 (1961) (affirming a district court's issuance of an injunction where the defendant had access to plaintiff's list of insured, had become personally acquainted with customers, and had obtained new customers while being paid and employed by plaintiff).

Madden alleges a permanent injunction should not issue because White Pigeon used the covenant not to compete in bad faith. Madden contends that White Pigeon terminated her contract and attempted to coerce her into signing a less desirable contract because she would be prohibited from competing with White Pigeon. We do not find this to be the case. White Pigeon provided more than adequate notice in terminating its contact with Madden. In addition, it terminated its contracted with Langley at the same time. White Pigeon attempted to negotiate a new contract with both Madden and Langley. It considered her requests for changes in the new contract, accepting some and rejecting others. Although Madden claims she never received the final contract White Pigeon presented at trial, the trial court found that she did receive the contract proposal. Compelling evidence supports the trial court's finding on this issue.

Furthermore, Madden testified that she would have accepted the agreement had she received it. Under these circumstances, we do not believe Madden has shown White Pigeon acted in bad faith in terminating her contract.

Finally, defendants claim it is unjust and unreasonable to impose an injunction on Madden Enterprises for any reason. They contend White Pigeon failed to preserve this issue for appeal and that the claim is unsupported at law and is unjust.

In its petition, White Pigeon requested a temporary and permanent injunction to enforce the provisions of Madden's contract regarding the covenant of non-compete and the disclosure of information clauses, as well as enjoining her from misappropriating trade secrets under the Iowa Trade Secrets Act. White Pigeon requested a temporary and permanent injunction be issued against Madden Enterprises only to prevent the misappropriation of its trade secrets. In its judgment, the district court dismissed all claims against Madden Enterprises. Thereafter, White Pigeon appealed "from each and every order and ruling" of the district court. We find White Pigeon properly preserved for appeal the issue of whether the district court erred in denying its request to enjoin Madden Enterprises from misappropriating its trade secrets.

Madden Enterprises argues that it is unfair to bind it to the provisions of Madden's contract with White Pigeon. We agree. Madden Enterprises is not a party to Madden's contract with White Pigeon. Furthermore, White Pigeon did not request in its petition that the court enforce Madden's contract provisions against Madden Enterprises. White Pigeon also has an adequate remedy in enjoining Madden from this conduct and therefore we need not extend the

injunction to Madden Enterprises. For these reasons, we decline to enjoin Madden Enterprises from dealing directly or indirectly with White Pigeon policyholders and insurance carriers.

Although White Pigeon preserved the issue of enjoining Madden Enterprises from misappropriating its trade secrets, it does not argue this issue in either its brief or reply brief. "Failure in the brief to state, to argue or to cite authority in support of an issue may be deemed waiver of that issue." Iowa R. App. P. 14(a)(3). Therefore, we decline to address this issue on appeal. *See Lala v. Peoples Bank & Trust Co.*, 420 N.W.2d 804, 806-07 (Iowa 1988) (where appellant did not identify issue in brief or cite authority in its support, court would not consider the issue on appeal).

We reverse the district court's denial of injunctive relief with regard to Madden, but not Madden Enterprises.

IV. Covenant Not to Compete. White Pigeon complains of the court's limitation of the non-compete agreement to one year. It argues this is inadequate to protect its business, given Madden's close personal contact with its clients and evidence she has already succeeded in persuading a number of them to switch agencies.

The court employs a three-prong test when deciding whether to enforce a restrictive covenant. *Phone Connection, Inc. v. Harbst,* 494 N.W.2d 445, 449 (Iowa Ct. App. 1992). First, the restriction must be reasonably necessary for the protection of the employer's business. *Id.* Second, it must not unreasonably restrict the employee's rights. *Id.* Finally, the restriction must not be prejudicial to the public interest. *Id.* While fair protection must be afforded to the business

interests of the employer, the restriction on the employee must be no greater than necessary to protect the employer. *Dental East, P.C.*, 423 N.W.2d at 555. The covenant must not be oppressive or create hardships on the employee that are out of proportion to the benefits expected by the employer. *Id.*

The reasonableness of a restraint and the validity of a covenant not to compete seldom depend on a single fact. *Iowa Glass Depot, Inc. v. Jindrich,* 338 N.W.2d 376, 382 (Iowa 1983). Instead, we consider and weigh all the facts carefully to determine each case in its entire circumstances. *Id.* These factors include the nature of the business, a defendant's proximity to the customers, accessibility to information peculiar to the employer's business, the nature of the occupation that is restrained, as well as matters of basic fairness. *Id.*

A restrictive covenant must bear some relation to the activities of the employee. *Baker v. Starkey,* 259 Iowa 480, 490, 144 N.W.2d 889, 895 (1966). It must not restrain the employee's activities in a territory into which his former work did not take him. *Id.* Nor should it give him the opportunity to enjoy undue advantage in later competition with his employer. *Id.* The relevant question is whether the covenant restrains the employee beyond the point where he could be reasonably anticipated to injure his employer's business.

We find the three-year limitation contained in the covenant not to compete is reasonable and valid. The covenant was restricted to a five county area in which Madden sold to White Pigeon customers. The covenant does not prohibit Madden from continuing her career as an insurance agent. It only prohibits Madden from directly or indirectly soliciting White Pigeon clients. The covenant is reasonable and necessary to protect White Pigeon.

We affirm the district court's finding that the non-compete agreement is valid, but reverse its limitation of the duration of the agreement to one year. We conclude White Pigeon is entitled to the three-year period of restraint that Madden agreed to in her employment contract.

V. Offsetting Damages. White Pigeon next contends the court erred by setting off its damages for Madden's breach of contract with Madden's alleged damages for White Pigeon's conduct in terminating her. White Pigeon points out that Madden never filed a counterclaim, and in any event, that the parties did not agree to a setoff. White Pigeon also argues it acted within its rights under the contract and did not coerce Madden.

Setoff is available where a defendant has filed a counterclaim. *See* Iowa R. Civ. P. 225. Iowa Rule of Civil Procedure 225 only allows for such setoff by agreement of both parties, or where it is required by statute. Madden never filed any counterclaim against White Pigeon. Additionally, the parties did not agree to setoff. Therefore, no setoff is available to Madden.

On appeal, Madden contends that the setoff was an equitable remedy the district court had the power to invoke. While setoff is traditionally an equitable doctrine that lies within the court's providence, in Iowa we have chosen to regulate the right to setoff through the rules of civil procedure. *City of Sioux City v. Siouxland Engineering Associates, P.C.*, 611 N.W.2d 777, 779 (Iowa 2000). These rules have the force and effect of law. *Id.* However, Madden claims the use of the term "setoff" is a misnomer and that the district court properly reduced White Pigeon's damages under the doctrine of clean hands.

The doctrine of clean hands may only be invoked where a plaintiff's conduct appears to have injured, damaged, or prejudiced the defendant. *Midwest Management Corp. v. Stephens,* 353 N.W.2d 76, 81 (Iowa 1984). The doctrine is to be applied rigorously as the courts do not favor it. *Cedar Mem'l Park Cemetery Ass'n v. Personnel Assoc., Inc.,* 178 N.W.2d 343, 353 (Iowa 1970).

Assuming arguendo that the court acted under the doctrine of clean hands to offset White Pigeon's damages, we cannot find White Pigeon's actions would warrant an offset. We have already found that White Pigeon did not engage in any wrongful conduct in terminating its employment contract with Madden. Because granting White Pigeon affirmative equitable relief would not run contrary to public policy or lend the court's aid to fraudulent, illegal or unconscionable conduct, White Pigeon's damages could not be reduced under the doctrine of clean hands. *See Myers v. Smith,* 208 N.W.2d 919, 921 (Iowa 1973).

In the alternative, Madden argues that the district court properly denied damages to White Pigeon because it failed to mitigate its losses and, after deducting expenses, was unable to show any lost profits. An appellee may seek to save judgment on an alternate ground presented to the district court. *Regent Ins. Co. v. Estes Co.,* 564 N.W.2d 846, 848 (Iowa 1997). We can affirm the judgment of the district court on any ground, whether urged or not. *Harbit v. Voss Petroleum. Inc.,* 553 N.W.2d 329, 330 (Iowa 1996).

We find Madden's argument that White Pigeon's damages should be reduced for its failure to mitigate is without merit. Madden signed an employment contract with White Pigeon in which she consented to a non-compete agreement.

Madden then violated this agreement. To require White Pigeon to compete with Madden for its own customers would invalidate the purpose of having such an agreement.

We reverse the district court's offset of White Pigeon's damages.

VI. Iowa Uniform Trade Secrets Act. Finally, White Pigeon asserts the court erred by dismissing its claims under Iowa's Uniform Trade Secrets Act. It contends its policyholder list constitutes a trade secret, and the defendants' use of it violates the Act. White Pigeon characterizes as absurd Madden's claim that she burned the list with diesel fuel after contract negotiations broke down and criticizes the district court for believing her. White Pigeon further contends the defendants' conduct was willful and malicious, warranting exemplary damages and attorney fees under the Act, including appellate attorney fees.

In order to succeed on its claim that Madden misappropriated a trade secret, White Pigeon must show (1) the existence of a trade secret, (2) acquisition of the secret as a result of a confidential relationship, and (3) unauthorized use of the secret. *Lemmon v. Hendrickson,* 559 N.W.2d 278, 279 (Iowa 1997). White Pigeon has the burden of establishing each element by a preponderance of the evidence. *Id.*

There is little dispute that White Pigeon's customer list meets the definition of a trade secret. Iowa Code section 550.2 defines a trade secret as:

> . . . information, including but not limited to a formula, pattern, compilation, program, device, method, technique, or process that is both of the following:
> a. Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by a person able to obtain economic value from its disclosure or use.

b. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

A customer list can be protected as a trade secret. *Lemmon,* 559 N.W.2d at 280. The list need only be protected from disclosure to the public and it must provide the holder with some economic advantage over competitors. *S&W Agency, Inc. v. Foremost Ins. Co.,* 51 F. Supp. 2d 959, 977 (N.D. Iowa 1998). Here, White Pigeon kept its customer list secret as only one person in the office had the ability to access it and print it out. This list, which not only contained the names of customers but also information about their insurance policies and renewal dates, would certainly provide White Pigeon with an economic advantage over its competitors.

It is also undisputed that Madden obtained the customer list as a result of a confidential relationship. At the time Madden obtained the list in October of 1999, she was a co-manager at White Pigeon. She received the list from her assistant whom she requested to print it out. It took approximately five or six hours for the computer to generate the six-inch thick list.

The only issue then is whether Madden engaged in unauthorized use of the list. At the outset, we note that in making a claim for misappropriation of a trade secret under the Iowa Uniform Trade Secrets Act, the plaintiff need not show that the defendant actually used the secret. *EFCO Corp. v. Symons Corp.,* 219 F.3d 734, 741 (8th Cir. 2000). Iowa Code section 550.2(3)(a) defines misappropriation as the "[a]cquisition of a trade secret by a person who knows that the trade secret is acquired by improper means." Misappropriation also occurs where a trade secret is disclosed or used by someone who knows it was acquired by improper means. Iowa Code §§ 550.2(3)(b) – (c). The extent to

which the trade secret was actually employed by a defendant is relevant in determining damages. *EFCO Corp.*, 219 F.3d at 741.

At trial, Madden denied retaining White Pigeon's customer list after her termination. She testified that after contract negotiations with White Pigeon broke down, she burned the six inch customer list with diesel fuel. Madden's husband corroborated this testimony. Madden and her husband contend they did not utilize the customer list when sending three hundred notices to potential customers. Instead, they claim they picked names randomly from the phone book. The trial court carefully considered this testimony and determined both witnesses were credible. In equity cases, this court gives weight to the fact findings of the trial court, especially in considering the credibility of the witnesses. Iowa R. App. P. 14(f)(7). Because these fact findings are supported by substantial evidence, we find White Pigeon has failed to demonstrate any misappropriation of the customer list. See *Bazal v. Rhines,* 600 N.W.2d 327, 329 (Iowa Ct. App. 1999).

We affirm the district court's dismissal of White Pigeon's Iowa Uniform Trade Secrets Act claim.

VII. Summary. We reverse the district court's denial of a permanent injunction to enjoin Madden from having dealings with White Pigeon customers and remand for the entry of a three-year injunction. We affirm the district court's denial of any injunction against Madden Enterprises, Ltd. We affirm the district court's finding that the non-compete agreement is valid, but find White Pigeon is entitled to the three-year period of restraint that Madden agreed to in her employment contract. We reverse the district court's offset of White Pigeon's

damages and remand for determination of damages for Madden's breach of the non-compete agreement. Finally, we affirm the district court's dismissal of White Pigeon's Iowa Uniform Trade Secrets claim.

AFFIRMED IN PART, REVERSED IN PART AND REMANDED.

Vogel, J., concurs; Sackett, C.J., concurs specially.

SACKETT, C.J. (concurs specially)

I concur in all respects except I do not believe the customer list meets the definition of a trade secret under Iowa Code section 550.2. However, a customer list can be found to be a trade secret, and I believe the facts here support such a finding. *See Basic Chemicals, Inc. v. Benson*, 251 N.W.2d 220, 229 (Iowa 1977).