RAM PRODUCTS CO., INC. v. CHAUNCEY

United States District Court, N.D. Indiana, South Bend Division, 1997
967 F.Supp. 1071

FACTS Defendant, Warren C. Chauncey (Chauncey), is an Indiana resident, who briefly held the position of Vice President of Sales and Marketing while employed at RAM Products. He is fifty-nine years old and has been in the plastics industry for twenty-five years. Defendant, Replex Plastics (Replex), is an Ohio Corporation now employing Chauncey in a management position. Plaintiff, RAM Products (RAM), a Michigan corporation, and Replex are both in the plastics industry. The employment contract in controversy was entered into between Chauncey and RAM in St. Joseph County, Michigan, on November 18, 1991, and contained a clause prohibiting former employees from competing against RAM for a period of one year after termination of employment with RAM. On December 3, 1996, Chauncey was released from his employment at RAM and soon after began employment with Replex.

The plaintiff contends that this was a breach of its former employment contract's covenant not to compete, that Chauncey has converted and continues to convert RAM's property and trade secrets, and that he has made derogatory remarks regarding RAM to its customers and the general public. The plaintiff argues that Chauncey's breach of contract causes irreparable harm to it through the disclosure of confidential information, the loss of client confidence, loss of goodwill, and loss of business reputation. The plaintiff seeks a preliminary injunction requiring Chauncey to cease his employment with Replex until the one-year time period required by the contract has expired, an injunction restraining Chauncey from working for any other competitor during the one-year period, and damages originally in the amount of $50,000, the jurisdictional amount when the plaintiff filed this suit. The defendant Chauncey asserts that he is not violating his former employment contract, that the contract is void due to RAM's failure to perform certain provisions of the contract, that the noncompetition clause is overly broad and unenforceable, and that he has not disclosed any trade secrets or confidential information.

DECISION Federal diversity jurisdiction satisfied.

OPINION While this court still has concern regarding the amount of actual damages attributable to the defendant, the court finds that the plaintiff has alleged sufficient facts to proceed with the case and to determine that this court has subject matter jurisdiction over this case. If the right of recovery is uncertain, the doubt should be resolved, for jurisdictional purposes, in favor of the subjective good faith of the plaintiff. Only if it appears to a legal certainty that the plaintiff cannot recover the jurisdictional amount will the case be dismissed for want of jurisdiction.

A court in a diversity case must apply the substantive law of the forum in which it sits, including that pertaining to choice of law. So, this court will apply Indiana's choice of law rules in making its determination of which state's law governs the substantive issues. Formerly, in contract cases, Indiana courts applied the law of the state in which the alleged contract was made or was to be performed. That rule was modified, however, to allow application of the law of the state with the most significant contacts to the subject matter of the litigation, regardless of the place of the breach.

One of the defendants, Chauncey, is an Indiana resident. Indiana has an interest in protecting its citizens' rights to earn a livelihood. Furthermore, Indiana's public policy disfavors noncompetition clauses. In addition, both the plaintiff, RAM, and one of the defendants, Replex, transact business in Indiana.

Plaintiff RAM is a Michigan corporation, and both RAM and Replex transact business in Michigan. Similar to Indiana, Michigan has an interest in protecting its corporations. The "home office" for which Chauncey worked was located in Michigan, and the employment agreement in question was formed in Michigan. Based on the above facts, this court finds that the balance of factors tips slightly in favor of Michigan's interests. Therefore, this court will apply Michigan law to resolve the substantive contract issues.

INTERPRETATION If it is not clear to a legal certainty that the damages claimed would not satisfy the jurisdictional amount requirement, the plaintiff is entitled to have its claim heard in a federal court.

ETHICAL QUESTION Is it ethical for a plaintiff to inflate the amount of damages requested in order to obtain federal diversity jurisdiction? Explain.

CRITICAL THINKING QUESTION Why has Congress imposed a jurisdictional minimum for diversity of citizenship cases?