

This article was originally written by Doug Weems and Pat Whalen as a chapter in a book entitled Missouri Employment Law and Practice. The article was updated most recently in the summer of 2008. The article focuses primarily on Missouri law. State law varies significantly in this area.

Chapter 7. Covenants Not to Compete and Trade Secrets

7:1. Generally

Research References

West's Key Number Digest, Contracts &key;115

C.J.S., Contracts §§249 to 268

Despite their limitations, noncompete agreements have always been an intriguing and hotly contested issue among company owners, particularly in high-tech circles. These days more and more companies of all sizes and in all industries are using noncompetes in an attempt to protect their trade secrets, employee ranks, and customer bases. What's more, in an age of frequent job hopping, company owners are finding that they need to enforce those agreements more often than ever.¹

Missouri courts continue to grapple with issues concerning the enforcement of covenants not to compete. The age-old tension is still present. On one hand, the freedom to contract is among America's most cherished values. On the other hand, the right to work and the right to compete freely are just as important. One court recently summarized the inherent tension between these competing policies, which is readily apparent in this area of the law:

Even today, every time a noncompetition clause is litigated, the court is forced to grapple with two conflicting policies, freedom to contract and the doctrine against contractual restraints of trade. ("Two principles, the freedom to contract and the freedom to work, conflict when courts test the enforceability of covenants not to compete.") The first policy has been protected by American courts since the early nineteenth century to "encourage individual entrepreneurial activity," and has "been extolled as one of the great boons of modern democratic civilization, as one of the principal causes of prosperity and comfort." The second doctrine is "[o]ne of the oldest and best established ... [contract] policies developed by courts."²

Employers, those who purchase businesses, and partners are among those frequently seeking to restrict competition by departing employees, sellers of businesses, and departing partners. Such restrictions can take several forms. Perhaps the most common is a prohibition on the disclosure of confidential information or trade secrets. Other common restrictions include prohibitions on soliciting certain customers or clients, or valuable, highly trained employees. The most extreme restriction is a prohibition on competition in any form.

In addition to the competing policies mentioned above, partners and employees, particularly high-level employees, owe duties of loyalty and confidentiality to their employers and partners. These competing policies in large part have provided the underpinning for court decisions in this area.

This Chapter will first discuss the three most common types of restrictive covenants—nondisclosure agreements, nonsolicitation agreements, and noncompetition agreements. This

¹ Christopher Caggiano, *Think All Noncompetes Stink?*, Inc., Oct. 1997, at 114, 114–15.

² *Curtis 1000, Inc. v. Youngblade*, 878 F. Supp. 1224, 1256–57 (N.D. Iowa 1995) (citations omitted).

Chapter will then discuss six specific requirements Missouri courts have imposed before these covenants will be enforced. Although these covenants are enforceable in Missouri, they are carefully reviewed and are enforced only when a reviewing court is satisfied that these six requirements have been met. Next, the Chapter will discuss two of the legal issues that generally arise when parties attempt to enforce these covenants. Finally, the Chapter will address trade secrets and the inevitable disclosure doctrine, a doctrine that can preclude employment with a competitor, even in the absence of a noncompete.

7:2. Types of restrictive covenants

Research References

West's Key Number Digest, Contracts &key;115

C.J.S., Contracts §§249 to 268

Restrictive covenants generally come in one of three forms: (1) nondisclosure agreements, which are the least restrictive of the three covenants; (2) nonsolicitation agreements, which prohibit the solicitation of customers, employees, or both; and (3) noncompetition agreements, which are the most restrictive type of covenants.

A typical nondisclosure provision in an employment agreement might read as follows:

Covenant Against Disclosure of Confidential Information. During the term of Employee's employment with the Company and for a period of ____ () months from the voluntary or involuntary termination of Employee's employment with the Company for any reason whatsoever, Employee shall not use for any purpose, or disclose to any person or entity, any Confidential Information acquired during the course of employment with the Company. Employee shall not, directly or indirectly, copy, take, or remove from the Company's premises any of the Company's books, records, customer lists, or any other documents, materials, or Confidential Information. The term "Confidential Information" as used in this Agreement includes, but is not limited to: (a) information of a business nature such as, but not limited to, records, lists, and knowledge of the Company's customers, suppliers, methods of operations, information about costs, purchasing, profits, markets, sales, methods of determination of prices, financial condition, net income, and indebtedness, etc.; (b) information of a scientific or technical nature such as, but not limited to, know-how, processes, procedures, designs, research and development results, whether successful or unsuccessful, engineering drawings, computer software, trade secrets, etc.; and (c) new business or product development information, business or marketing strategies, future development plans or ideas, projections, or estimates, etc.

In the employment context, such a restriction would likely be accompanied by a confidentiality provision in an employee handbook, confidentiality warnings on sensitive documents or information, or in sensitive areas, and various other verbal and written reminders of confidentiality. In addition to the employment context, confidentiality agreements are frequently used in sale agreements, partnership agreements, or any other business relationship where the parties share any information that they do not want to disclose to the public at large.

A typical nonsolicitation provision in an employment agreement might read as follows:

Covenant Against Solicitation of Customers. During the term of Employee's employment with the Company and for a period of ____ () months from the voluntary or involuntary termination of Employee's employment with the Company for any reason whatsoever, Employee shall not solicit, induce, or attempt to induce any past or current customer of the Company to: (a) cease doing business in whole or in part with or through the Company; or (b) do business with any other person, firm, partnership, corporation, or other entity that performs services materially similar to or competitive with those provided by the Company.

A similar type of provision is often used to prohibit the solicitation of highly skilled employees. These types of restrictions are common in employment agreements, sale agreements, and partnership agreements.

The most restrictive type of covenant is a covenant not to compete. A typical noncompetition provision in an employment agreement might read as follows:

Covenant Against Competition. During the term of Employee's employment with the Company and for a period of ____ () months from the voluntary or involuntary termination of Employee's employment with the Company for any reason whatsoever, Employee: (a) will not, directly or indirectly, own, manage, operate, control, be employed by, perform services for, consult with, solicit business for, or be connected with the ownership, management, operation, or control of any business that performs services materially similar to or competitive with those provided by the Company, in any Market Area where the Company has had an office or has sold products or provided services to customers during the period Employee is or was employed by the Company. If the location where the Company has had an office or has sold products or provided services to customers is within a standard metropolitan statistical area as designated by the federal government, the term "Market Area" shall be that standard metropolitan statistical area. In all other cases, the term "Market Area" shall mean any county where the Company has had an office or has sold products or provided services to customers.

In addition to use in employment agreements, these types of restrictions are frequently used in sale agreements, partnership agreements, franchise agreements, and independent contractor agreements.

Other types of agreements exist that arguably place limits (directly or indirectly) on competition. For example, creative parties may include contractual provisions providing that certain benefits are subject to forfeiture if certain prohibited activities (like competition or solicitation of clients) take place.³ Those types of agreements are outside the scope of this Chapter.

I. Requirements for Enforcement

7:3. Overview

Research References

West's Key Number Digest, Contracts &key;115

C.J.S., Contracts §§249 to 268

There are at least six critical issues that must be addressed in any case seeking to enforce a noncompetition agreement or other restrictive covenant. These are:

- (1) Does the covenant protect a legitimate business interest?
- (2) Is there sufficient consideration?
- (3) Are the time and territory restrictions in the covenant reasonable?
- (4) Is the covenant ancillary to a valid transaction or relationship?
- (5) Does the covenant impose an undue burden?
- (6) Does the covenant injure the public?

³ *E.g.*, Grebing v. First Nat'l Bank, 613 S.W.2d 872 (Mo. App. E.D. 1981); Alldredge v. City Nat'l Bank & Trust Co., 468 S.W.2d 1 (Mo. 1971).

Of course, a party seeking to enforce a restrictive covenant must prevail on each issue.⁴ Conversely, one seeking to avoid enforcement must prevail on only one issue.

As a contract, ordinary rules of contract construction are applicable to restrictive covenants.⁵

7:4. Legitimate business interest—Generally

Research References

West's Key Number Digest, Contracts &key;116(2)

C.J.S., Contracts §§249 to 254, 257 to 260

The question of what constitutes a legitimate business interest sufficient to support a restrictive covenant can be one of the most important issues in analyzing a restrictive covenant. Because restrictive covenants restrain trade, they are not favored and are enforceable only to protect a legitimate business interest.⁶ In general, Missouri courts have long held that legally sufficient interests include trade secrets and customer contracts or relationships.⁷

7:5. Legitimate business interest—Trade secrets

Research References

West's Key Number Digest, Contracts &key;118

C.J.S., Contracts §§249 to 254, 257 to 260, 267 to 268

Missouri courts have frequently enforced restrictive covenants when the business interest at issue was the protection of trade secrets. For example, in *Ultra-Life Laboratories, Inc. v. Eames*,⁸ L.W. Eames developed a method and process for culling chickens that allowed one knowing the method and process to determine whether a chicken was capable of, and was, producing eggs, and whether retaining the chicken in a flock as an egg producer would be profitable.⁹ Ultra-Life Laboratories sponsored the Eames Institute of Poultry Technology, and spent significant sums of money advertising the Eames method and furnishing facilities for the conduct of the Eames Institute.¹⁰ As part of a later transaction, Eames agreed not to teach, disclose, or sell any information concerning his method and

⁴ See *Mo-Kan Cent. Recovery Co. v. Hedenkamp*, 671 S.W.2d 396, 400–01 (Mo. App. W.D. 1984) (refusing to enforce a non-compete where the evidence that a bidding structure and repossession techniques were trade secrets was too general and conclusory).

⁵ *Wilson Mfg. Co. v. Fusco*, 2008 WL 2097440, at *2 (Mo. App. E. D. 2008).

⁶ *AEE-EMF, Inc. v. Passmore*, 906 S.W.2d 714, 719 (Mo. App. W.D. 1995); *Osage Glass, Inc. v. Donovan*, 693 S.W.2d 71, 73–74 (Mo. 1985) (en banc); *Orchard Container Corp. v. Orchard*, 601 S.W.2d 299, 303 (Mo. App. E.D. 1980).

⁷ E.g., *Easy Returns Midwest, Inc. v. Schultz*, 964 S.W.2d 450, 453 (Mo. App. E.D. 1998); *Furniture Mfg. Corp. v. Joseph*, 900 S.W.2d 642, 647 (Mo. App. W.D. 1995); *Cape Mobile Home Mart, Inc. v. Mobley*, 780 S.W.2d 116, 118 (Mo. App. E.D. 1989).

⁸ 240 Mo. App. 851, 221 S.W.2d 224 (W.D. 1949).

⁹ *Eames*, 221 S.W.2d at 225.

¹⁰ *Eames*, 221 S.W.2d at 225.

process for a period of 20 years (except to Ultra-Life Laboratories).¹¹ After several years of employment with Ultra-Life Laboratories, Eames began teaching his method and process at schools in Clinton, Missouri, and Georgetown, Texas.¹² After being served with a temporary restraining order, Eames moved the Missouri school to Kansas City, Kansas.¹³ The Missouri Court of Appeals affirmed the trial court's injunction.¹⁴ In rejecting Eames' argument that his method and process were not trade secrets, the Court held that “[t]he defendant was not in position to deny that his processes and methods were secret. His contract not to teach or divulge such methods is in itself an admission of a positive character that such methods were secret.”¹⁵

Other Missouri cases have upheld restrictive covenants when the protectible interest was trade secrets. In *Sigma Chem. Co. v. Harris*,¹⁶ the trade secrets justifying a preliminary injunction were products and purchasing information—the price paid for some 16,000 esoteric chemicals used in research, production, and analysis in laboratories, universities, and hospitals in the United States and over 140 foreign countries, the quality of a particular item, and the identity of the seller for that price and quality.¹⁷ Because the heart of Sigma Chemical's business was matching the right supplier with the product sold, the knowledge of which supplier sold a particular chemical of a certain quality that satisfied a particular purpose at the right price constituted trade secrets.¹⁸ After granting a preliminary injunction, the trial court later granted a two-year (permanent) injunction.¹⁹ The Eighth Circuit affirmed the issuance of an injunction on appeal.²⁰ In *Cape Mobile Home Mart, Inc. v. Mobley*,²¹ the trade secrets were details of the employer's operations, the success or lack of success of the business operations and performance of employees, and a list of potential customers.²² This confidential information, when compiled, constituted trade secrets.²³ In *Superior Gearbox Co. v. Edwards*,²⁴ a milling process was a trade secret that supported a noncompetition agreement.²⁵

¹¹ Eames, 221 S.W.2d at 225.

¹² Eames, 221 S.W.2d at 230.

¹³ Eames, 221 S.W.2d at 230.

¹⁴ Eames, 221 S.W.2d at 232.

¹⁵ Eames, 221 S.W.2d at 232.

¹⁶ 586 F. Supp. 704 (E.D. Mo. 1984).

¹⁷ *Sigma Chem.*, 586 F. Supp. at 706.

¹⁸ *Sigma Chem.*, 586 F. Supp. at 706.

¹⁹ 605 F. Supp. 1253 (E.D. Mo. 1985).

²⁰ 794 F.2d 371 (8th Cir. 1986). The Eighth Circuit did remand, however, for consideration of the amount of time it would take a competitor to reproduce independently the trade secrets. 794 F.2d at 375.

²¹ 780 S.W.2d 116 (Mo. App. E.D. 1989).

²² *Cape Mobile Home*, 780 S.W.2d at 118–19.

²³ *Cape Mobile Home*, 780 S.W.2d at 119. This decision holds that confidential business information which does not rise to a trade secret can achieve trade secret status when combined with other confidential information. *See also* *Charles Reilly Optical Co. v. Burke*, 41 S.W.2d 909, 909–11 (Mo. App. E.D. 1931) (no noncompete, but granting injunctive relief prohibiting a former employee from utilizing confidential customer information obtained while working for a former employer); *Opie Brush Co. v. Bland*, 409 S.W.2d 752, 754 (Mo. App. W.D. 1966) (no noncompete, but granting an injunction against a former officer and director who had knowledge of the company's methods of doing business, costs, overhead and profit figures, and its prospective and actual customers). For decisions under other states' law, *see, e.g.*, *Overholt Crop Ins. Serv. Co. v. Travis*, 941 F.2d 1361, 1368 (8th Cir. 1991) and *Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1268 (8th Cir. 1978) (applying South Dakota and Minnesota law, respectively).

²⁴ 869 S.W.2d 239 (Mo. App. S.D. 1993).

²⁵ *Superior Gearbox*, 869 S.W.2d at 250.

If the information is not secret, the covenant will not be enforced.²⁶

7:6. Legitimate business interest—Customer contacts

Research References

West's Key Number Digest, Contracts &key;116(2)

C.J.S., Contracts §§249 to 254, 257 to 260

Missouri cases have frequently held that relationships with customers are legitimate interests that support the enforcement of restrictive covenants. Customer lists need not be secret to be protected.²⁷ Recently, in *Washington County Memorial Hospital v. Sidebottom*,²⁸ a nurse practitioner had seen over 3,000 patients, diagnosed illnesses and injuries, prescribed and dispensed medications, and ordered and interpreted laboratory tests.²⁹ Accordingly, she had ample opportunity to influence the employer's patient base, and enforcement of a non-compete was justified.³⁰ Similarly, in *Deck & Decker Personnel Consultants, Ltd. v. Pigg*,³¹ an employee of an employment agency had a close and valuable rapport with prospective employers to whom job applicants were referred, justifying enforcement of a noncompetition agreement.³²

Customer contacts are a protectible interest because:

Goodwill develops between the customers and the company through employees or business partners whose job it is to meet with, converse with, and develop a professional relationship with the company's customers while representing the company. The goodwill ... is essential to the companies (sic) success The goodwill that develops results in sales of the company's product or services.³³

Accordingly, it is essential to establish contacts of a sufficient quality, frequency, and duration that enable an employee or other contracting party to influence customers.³⁴ Thus, where there are no repeat clients or business, there is no protectible interest.³⁵

Even managerial or supervisory employees can be restrained if they are in position to exert significant influence over the employees they supervise, and can use their knowledge and influence to recruit employees and old customers.³⁶

7:7. Legitimate Business Interest—No Protectible Interest

Research References

²⁶ *Tank Tech., Inc. v. Neal*, 2007 WL 2137817, at * 7 (E.D. Mo. July 23, 2007).

²⁷ *Systematic Bus. Servs., Inc. v. Bratten*, 162 S.W.3d 41, 51 (Mo. App. W.D. 2005).

²⁸ 7 S.W.3d 542 (Mo. App. E.D. 1999).

²⁹ *Washington County*, 7 S.W.3d at 545.

³⁰ *Washington County*, 7 S.W.3d at 545.

³¹ 555 S.W.2d 705 (Mo. App. W.D. 1977).

³² *Deck & Decker*, 555 S.W.2d at 707.

³³ *AEE-EMF, Inc. v. Passmore*, 906 S.W.2d 714, 720 (Mo. App. W.D. 1995).

³⁴ *Easy Returns Midwest, Inc. v. Schultz*, 964 S.W.2d 450, 454 (Mo. App. E.D. 1998).

³⁵ *Steamatic of Kansas City, Inc. v. Rhea*, 763 S.W.2d 190, 192 (Mo. App. W.D. 1988) (general cleaning services and speciality services for disaster restoration); *Ibur & Assocs. Adjustment Co., Inc. v. Walsh*, 595 S.W.2d 33, 35 (Mo. App. E.D. 1980) (public adjusting of fire and casualty losses)

³⁶ *Healthcare Servs. of the Ozarks, Inc. v. Copeland*, 198 S.W.3d 604, 613 (Mo. 2006) (en banc). See also *H & R Block E. Tax Servs., Inc. v. Enchura*, 122 F. Supp.2d 1067, 1073 (W.D. Mo. 2000).

Trade secrets and customer contacts have been the protectible interests involved in most Missouri cases discussing restrictive covenants in the employment setting. Several recent cases have highlighted the importance of having a protectible interest.

The first case, *West Group Broadcasting, Ltd. v. Bell*,³⁷ involved a 65-mile, 180-day noncompetition agreement.³⁸ The employee, a disk jockey, broadcast hot country music under the name “Hurricane Hannah.”³⁹ She earned the number one rating in Joplin during her time slot.⁴⁰ At her new station, she worked a different time slot, played contemporary music, broadcast under the name “Robin Kane,” and worked with a co-host.⁴¹ The station manager testified that Bell could exploit her on-air personality with her new station because her voice was very recognizable and she could influence listeners to move from her old station to her new station.⁴² Despite the testimony, the differences in format, music, name, etc. were determinative.⁴³ “The only things that Bell took with her and used when she went from KXDG to KSYN were her aptitude, skill, mental ability, and the voice with which she was born.”⁴⁴ There was no protectible interest, and the covenant was unenforceable.⁴⁵

In the second case, *Renal Treatment Ctrs.-Mo., Inc. v. Braxton*,⁴⁶ the employee served as the medical director of two dialysis treatment centers.⁴⁷ A medical director's role is set by federal regulation and includes a number of training, monitoring, and supervising functions.⁴⁸ A medical director has no patient contact; patient care is provided by a patient's physician or nurses.⁴⁹ Because Braxton was hired as a medical director, there was no protectible interest.⁵⁰ The employer argued, however, that Braxton was the personal physician for nearly all of the patients in question.⁵¹ Because Braxton was hired only as a medical director, his role as a physician was a separate relationship in which his employer had no interest.⁵² This suggests, however, that the employer could have structured the relationship differently, and rendered the noncompetition agreement enforceable.

The Eastern District of the Missouri Court of Appeals rejected a stable workforce as a protectible interest in recently refusing to enforce an anti-raiding provision.⁵³ These types of provisions typically prohibit a former employee from raiding a former employer's employees. In this case, the agreement prohibited the employee from taking any action that would “solicit, persuade, induce, or encourage any other employees or agents of [the former

³⁷ 942 S.W.2d 934 (Mo. App. S.D. 1997).

³⁸ *West Group*, 942 S.W.2d at 935.

³⁹ *West Group*, 942 S.W.2d at 936.

⁴⁰ *West Group*, 942 S.W.2d at 936.

⁴¹ *West Group*, 942 S.W.2d at 936.

⁴² *West Group*, 942 S.W.2d at 936.

⁴³ *West Group*, 942 S.W.2d at 938.

⁴⁴ *West Group*, 942 S.W.2d at 938.

⁴⁵ *West Group*, 942 S.W.2d at 939.

⁴⁶ 945 S.W.2d 557 (Mo. App. E.D. 1997).

⁴⁷ *Renal Treatment Centers*, 945 S.W.2d at 559.

⁴⁸ *Renal Treatment Centers*, 945 S.W.2d at 561.

⁴⁹ *Renal Treatment Centers*, 945 S.W.2d at 561.

⁵⁰ *Renal Treatment Centers*, 945 S.W.2d at 564–65.

⁵¹ *Renal Treatment Centers*, 945 S.W.2d at 564.

⁵² *Renal Treatment Centers*, 945 S.W.2d at 564.

⁵³ *Schmersahl, Treloar & Co., P.C. v. McHugh*, 28 S.W.3d 345 (Mo. App. E.D. 2000).

employer] to terminate employment with the company.”⁵⁴ The court held that customer contacts and trade secrets are the only protectible interests sufficient to support a restrictive covenant in Missouri, and accordingly refused to enforce the provision in its entirety.⁵⁵

The plaintiff, an accounting firm, required all of its employees to sign an agreement that contained confidentiality, nonsolicitation of employees, and nonsolicitation of clients provisions.⁵⁶ The agreement went on to provide for stipulated or liquidated damages in the event of a breach.⁵⁷ The defendant, an accountant hired by plaintiff in 1994, signed his agreement in 1996.⁵⁸ Later that year, he left plaintiff's employment to take a position with a different accounting firm.⁵⁹ Nearly two years later, the defendant contacted one of plaintiff's employees, Mark Graves, and had lunch with him.⁶⁰ During the lunch, defendant indicated that his current employer was looking for an accountant with Graves' type of experience.⁶¹ Defendant suggested that this would be a good opportunity for Graves.⁶² Graves did nothing with respect to the suggestion except advise his supervisor at plaintiff.⁶³ Graves did not ask for a raise, and did not receive one.⁶⁴ Defendant's current employer never made a job offer to Graves, and apparently took no further action with respect to Graves.⁶⁵

Plaintiff filed suit seeking to enforce the liquidated damages provision of the agreement.⁶⁶ Plaintiff argued that it had a protectible interest in maintaining a stable workforce and suggested that that interest was sufficient to support the restrictive covenant.⁶⁷ The court disagreed, and held that the only interests protected by a restrictive covenant in Missouri are trade secrets or customer contacts.⁶⁸ The court specifically held that “an employer's interest in protecting the stability of its at-will workforce is not one of the interests which may be protected by a restrictive covenant in Missouri.”⁶⁹ Accordingly, the court refused to enforce the nonsolicitation of employees clause.⁷⁰

Finally, when considering an agreement which prohibited “material competition,” the court in *Victoria's Secret Stores, Inc. v. The May Department Stores Co.*,⁷¹ concluded that the old and new employers were not in “material competition.”

7:8. Valid consideration

Research References

West's Key Number Digest, Contracts &key;65.5

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- ⁵⁴ Schmersahl, Treloar, 28 S.W.3d at 347.
⁵⁵ Schmersahl, Treloar, 28 S.W.3d at 349.
⁵⁶ Schmersahl, Treloar, 28 S.W.3d at 347.
⁵⁷ Schmersahl, Treloar, 28 S.W.3d at 347.
⁵⁸ Schmersahl, Treloar, 28 S.W.3d at 347.
⁵⁹ Schmersahl, Treloar, 28 S.W.3d at 347.
⁶⁰ Schmersahl, Treloar, 28 S.W.3d at 347.
⁶¹ Schmersahl, Treloar, 28 S.W.3d at 347.
⁶² Schmersahl, Treloar, 28 S.W.3d at 347.
⁶³ Schmersahl, Treloar, 28 S.W.3d at 347.
⁶⁴ Schmersahl, Treloar, 28 S.W.3d at 347–48.
⁶⁵ Schmersahl, Treloar, 28 S.W.3d at 348.
⁶⁶ Schmersahl, Treloar, 28 S.W.3d at 348.
⁶⁷ Schmersahl, Treloar, 28 S.W.3d at 350.
⁶⁸ Schmersahl, Treloar, 28 S.W.3d at 349–50.
⁶⁹ Schmersahl, Treloar, 28 S.W.3d at 351.
⁷⁰ Schmersahl, Treloar, 28 S.W.3d at 351.
⁷¹ 157 S.W.3d 256, 261 (Mo. App. E.D. 2004)

Restrictive covenants are contractual obligations. Thus, it is no surprise that there must be adequate consideration to support the contract and the restrictive covenant. When the covenant is ancillary to an at-will employment relationship, several Missouri cases have held that continued employment constitutes sufficient consideration.⁷² The employer need not, however, convey a threat of discharge.⁷³

On the other hand, in *Sturgis Equipment Co., Inc. v. Falcon Indus. Sales Co.*,⁷⁴ the court refused to enforce a non-compete for several reasons, including a lack of consideration.⁷⁵ The applicable buy-sell agreement provided that Sturgis Equipment would sell stock to Edwin Johnson, and would buy the stock back if he desired, or if his employment was terminated.⁷⁶ The buy-sell agreement contained a noncompete, but specified no consideration for the noncompete and did not set forth any special interests of Sturgis Equipment that needed to be protected.⁷⁷ The noncompete was unenforceable for a lack of consideration and a lack of a protectible interest.⁷⁸

7:9. Reasonably limited—Generally

Research References

West's Key Number Digest, Contracts &key;117

C.J.S., Contracts §§249 to 254, 257 to 266

When evaluating the time and territory restrictions contained in restrictive covenants, the ultimate question is reasonableness.⁷⁹ In making this determination, the factors to be evaluated include the surrounding circumstances, the subject matter of the contract, the purpose served, the parties' situation, the extent or limits of the restraint, and the specialization of the business venture.⁸⁰ In employment contracts, most of the more recent Missouri cases have upheld time restrictions of up to two years and nationwide (or even global) territory restrictions in situations where the employer has a national or international business. In the more typical situation, however, territory restrictions are more limited. In partnership or sale of business agreements, Missouri courts have upheld much longer time and territory restrictions.

7:10. Reasonably limited—Time limitations

Research References

West's Key Number Digest, Contracts &key;117(2)

⁷² *Computer Sales Int'l, Inc. v. Collins*, 723 S.W.2d 450, 451–52 (Mo. App. E.D. 1986); *Reed, Roberts Assocs., Inc. v. Bailenson*, 537 S.W.2d 238, 240–41 (Mo. App. E.D. 1976); *Easy Returns Midwest, Inc. v. Schultz*, 964 S.W.2d 450, 454 (Mo. App. E.D. 1998).

⁷³ *Computer Sales*, 723 S.W.2d at 451 (citing *Ranch Hand Foods, Inc. v. Polar Pak Foods, Inc.*, 690 S.W.2d 437, 442 (Mo. App. W.D. 1985) (applying Kansas law)).

⁷⁴ 930 S.W.2d 14 (Mo. App. E.D. 1996).

⁷⁵ *Sturgis*, 930 S.W.2d at 17.

⁷⁶ *Sturgis*, 930 S.W.2d at 17.

⁷⁷ *Sturgis*, 930 S.W.2d at 17.

⁷⁸ *Sturgis*, 930 S.W.2d at 17.

⁷⁹ *Osage Glass*, 693 S.W.2d at 74; *Herrington v. Hall*, 624 S.W.2d 148, 151 (Mo. App. W.D. 1981).

⁸⁰ *Herrington*, 624 S.W.2d at 151 (citations omitted).

In terms of the time limitation, most of the recent Missouri cases considering noncompetes in the employment context have upheld time limits of two years,⁸¹ 18 months,⁸² or one year.⁸³ Although not as numerous, some cases have permitted longer time periods in the employment context, especially with nondisclosure or nonsolicitation agreements. In *A.B. Chance Co. v. Schmidt*,⁸⁴ for example, the court upheld a five-year nondisclosure agreement.⁸⁵ In *Kessler-Heasley Artificial Limb Co., Inc. v. Kenney*,⁸⁶ the court upheld a five-year non-compete. Several cases have upheld three-year nonsolicitation agreements.⁸⁷ A few cases have upheld three-year (or more) restrictions in noncompetes.⁸⁸ Finally, in *Ultra-Life Laboratories, Inc. v. Eames*,⁸⁹ the company enforced an agreement with a 20-year noncompete,⁹⁰ although the duration was not specifically addressed.

⁸¹ *Alltype Fire Protection Co. v. Mayfield*, 88 S.W.3d 120, 123 (Mo. App. E.D. 2002); *Silvers, Asher, Sher & McLaren, M.D.s Neurology, P.C. v. Batchu*, 16 S.W.3d 340, 345 (Mo. App. W.D. 2000); *Adrian N. Baker & Co. v. Demartino*, 733 S.W.2d 14, 15 (Mo. App. E.D. 1987) (nonsolicitation agreement); *Chemical Fireproofing Corp. v. Bronska*, 542 S.W.2d 74, 75, 76 (Mo. App. E.D. 1976) (two-year nonsolicitation agreement); *National Starch & Chem. Corp. v. Newman*, 577 S.W.2d 99, 101 (Mo. App. W.D. 1978) (nonsolicitation agreement); *Gold v. Holiday Rent-A-Car Int'l, Inc.*, 627 F. Supp. 280, 282 (W.D. Mo.1985) (applying Florida law); *Hulsenbusch v. Davidson Rubber Co.*, 344 F.2d 730, 731–32 (8th Cir. 1965) (applying Iowa or New Hampshire law); *Haysler v. Butterfield*, 240 Mo. App. 733, 218 S.W.2d 129, 129 (W.D. 1949); *Cape Mobile Home Mart, Inc. v. Mobley*, 780 S.W.2d 116, 116 (Mo. App. E.D. 1989); *Sigma Chem. Co. v. Harris*, 605 F. Supp. 1253, 1258, 1265 (E.D. Mo.1985), but remanded as to duration, 794 F.2d at 375; *Computer Sales*, 723 S.W.2d at 450 (nonsolicitation agreement); *Prentice v. Rowe*, 324 S.W.2d 457, 459 (Mo. App. S.D. 1959) (noncompete).

⁸² *USA Chem, Inc. v. Lewis*, 557 S.W.2d 15, 18 (Mo. App. W.D. 1977) (noncompete); *Continental Research Corp. v. Scholz*, 595 S.W.2d 396, 398 (Mo. App. E.D. 1980) (noncompete).

⁸³ *Renwood Food Prods., Inc. v. Schaefer*, 240 Mo. App. 939, 223 S.W.2d 144, 145 (E.D. 1949) (noncompete); *Furniture Mfg. Corp. v. Joseph*, 900 S.W.2d 642, 644 (Mo. App. W.D. 1995) (noncompete); *American Pamcor, Inc., v. Klote*, 438 S.W.2d 287, 289 (Mo. App. E.D. 1969) (nonsolicitation agreement); *Farmers Underwriters Ass'n v. Reid*, 425 S.W.2d 247, 249 (Mo. App. W.D. 1967) (nonsolicitation agreement); *Masden v. Travelers' Ins. Co.*, 52 F.2d 75, 76 (8th Cir. 1931) (noncompete and forfeiture of commissions); *City Ice & Fuel Co. v. Snell*, 57 S.W.2d 440, 441 (Mo. App. E.D. 1933) (noncompete); *City Ice & Fuel Co. v. McKee*, 57 S.W.2d 443, 444 (Mo. App. E.D. 1933) (noncompete); *Deck & Decker Personnel Consultants, Ltd. v. Pigg*, 555 S.W.2d 705, 706 (noncompete); *Washington County Memorial Hospital v. Sidebottom*, 7 S.W.3d 542, 543–44 (Mo. App. E.D. 1999) (noncompete); *Ballesteros v. Johnson*, 812 S.W.2d 217, 220 (Mo. App. E.D. 1991) (noncompete); *American Nat'l Ins. Co. v. Coe*, 657 F. Supp. 718, 719 (E.D. Mo. 1986) (noncompete).

⁸⁴ 719 S.W.2d 854 (Mo. App. W.D. 1986).

⁸⁵ *A.B. Chance*, 719 S.W.2d at 857.

⁸⁶ 90 S.W.3d 181, 188 (Mo. App. S.D. 2002),

⁸⁷ *Empire Gas Corp. v. Graham*, 654 S.W.2d 329, 330 (Mo. App. W.D. 1983); *Mills v. Murray*, 472 S.W.2d 6, 7 (Mo. App. W.D. 1971); *Empiregas Inc. v. Hogeland*, 538 S.W.2d 767, 767 (Mo. App. S.D. 1976); *Southwest Pump & Machinery Co. v. Forslund*, 225 Mo. App. 262, 29 S.W.2d 165, 167 (W.D. 1930).

⁸⁸ *Reed, Roberts Assocs., Inc. v. Bailenson*, 537 S.W.2d 238, 239 (Mo. App. E.D. 1976) (three years); *Osage Glass*, 693 S.W.2d at 72 (three years); *Holland Furnace Co. v. Connelley*, 48 F. Supp. 543, 545 (E.D. Mo. 1942); *R. E. Harrington, Inc. v. Frick*, 428 S.W.2d 945, 948 (Mo. App. E.D. 1968) (three years); *Herrington v. Hall*, 624 S.W.2d 148, 152 (Mo. App. W.D. 1981) (three years); *House of Tools & Eng'g, Inc. v. Price*, 504 S.W.2d 157, 158 (Mo. App. E.D. 1973) (three years); *Shelbina Veterinary Clinic v. Holthaus*, 892 S.W.2d 803, 804 (Mo. App.E.D. 1995) (four years); *Watlow Electric Mfg. Co. v. Wrob*, 899 S.W.2d 585, 587–88 (Mo. App. E.D. 1995) (five years is reasonable given the employee's willful violation of his non-compete); *Long v. Huffman*, 557 S.W.2d 911, 913 (Mo. App. W.D. 1977).

⁸⁹ 240 Mo. App. 851, 221 S.W.2d 224 (W.D. 1949).

⁹⁰ *Eames*, 221 S.W.2d at 225.

7:11. Reasonably limited—Territory limitations

Research References

West's Key Number Digest, Contracts &key;117(2)

C.J.S., Contracts §§249 to 254, 257 to 261, 265 to 266

In terms of the territory restriction, Missouri courts have upheld restrictive covenants in the employment context with the following territory restrictions: worldwide;⁹¹ nationwide;⁹² a state or several states;⁹³ a county or several counties;⁹⁴ a radius of 50 miles or more;⁹⁵ a radius of 35 miles or less;⁹⁶ Kansas City;⁹⁷ a portion of St. Louis;⁹⁸ and various hospitals.⁹⁹ With nonsolicitation agreements, the lack of a geographic restriction does not prevent enforcement.¹⁰⁰

7:12. Reasonably limited—Special circumstances

In the shareholder or partner context, Missouri courts have upheld time limits of three years¹⁰¹ and five years.¹⁰² Territory restrictions in this context include a radius of 20 miles,¹⁰³ a radius of 50 miles,¹⁰⁴ and the continental United States.¹⁰⁵

Finally, in the sale of a business context, longer and broader restrictions are more

⁹¹ *Sigma Chem. Co. v. Harris*, 586 F. Supp. 704, 710 (E.D. Mo. 1984) aff'd, 794 F.2d at 374.

⁹² *Hulsenbusch v. Davidson Rubber Co.*, 344 F.2d 730, 732, 736 (8th Cir. 1965); *Superior Gearbox Co. v. Edwards*, 869 S.W.2d 239, 243 (Mo. App. S.D. 1993).

⁹³ *Furniture Mfg.*, 900 S.W.2d at 644 & 647 (three states plus El Paso, Texas); *Reed, Roberts*, 537 S.W.2d at 239 (three states); *R. E. Harrington, Inc. v. Frick*, 428 S.W.2d 945, 948 (Mo. App. E.D. 1968) (three states); *Chemical Fireproofing Corp. v. Bronska*, 542 S.W.2d 74, 75 (Mo. App. E.D. 1976) (Missouri and Illinois); *House of Tools & Eng'g, Inc. v. Price*, 504 S.W.2d 157, 158 (Mo. App. E.D. 1973) (Missouri and Illinois); *Osage Glass*, 693 S.W.2d at 72 (Missouri).

⁹⁴ *Haysler v. Butterfield*, 240 Mo. App. 733, 218 S.W.2d 129, 129 (W.D. 1949) (Jackson and Clay County, Missouri, and Wyandotte County, Kansas); *USA Chem, Inc. v. Lewis*, 557 S.W.2d 15, 18 (Mo. App. W.D. 1977) (four counties); *Prentice v. Rowe*, 324 S.W.2d 457, 459 (Mo. App. S.D. 1959) (one county).

⁹⁵ *Gold v. Holiday Rent-A-Car Int'l, Inc.*, 627 F. Supp. 280, 282 (W.D. Mo. 1985) (seventy-five miles); *Long v. Huffman*, 557 S.W.2d 911, 913 (Mo. App. W.D. 1977) (sixty miles); *Washington County Memorial Hospital*, 7 S.W.3d at 544 (fifty miles); *Holland Furnace Co. v. Connelley*, 48 F. Supp. 543, 545 (E.D. Mo. 1942) (fifty miles).

⁹⁶ *Shelbina Veterinary Clinic v. Holthaus*, 892 S.W.2d 803, 804 (Mo. App. E.D. 1995) (thirty-five miles); *Cape Mobile Home Mart, Inc. v. Mobley*, 780 S.W.2d 116, 116 (Mo. App. E.D. 1989) (thirty-miles); *Herrington v. Hall*, 624 S.W.2d 148, 152 (Mo. App. W.D. 1981) (ten miles).

⁹⁷ *Masden v. Travelers' Ins. Co.*, 52 F.2d 75, 75 (8th Cir. 1931).

⁹⁸ *City Ice & Fuel Co. v. McKee*, 57 S.W.2d 443, 444 (Mo. App. E.D. 1933); *City Ice & Fuel Co. v. Snell*, 57 S.W.2d 440, 440 (Mo. App. E.D. 1933); *American Nat'l Ins. Co. v. Coe*, 657 F. Supp. 718, 719 (E.D. Mo. 1986).

⁹⁹ *Ballesteros v. Johnson*, 812 S.W.2d 217, 220 (Mo. App. E.D. 1991).

¹⁰⁰ *Mills v. Murray*, 472 S.W.2d 6, 11 (Mo. App. W.D. 1971); *Schott v. Beussink*, 950 S.W.2d 621, 626–27 (Mo. App. E.D. 1997).

¹⁰¹ *AEE-EMF, Inc. v. Passmore*, 906 S.W.2d 714, 724 (Mo. App. W.D. 1995) (shareholder context; decreasing a five-year limit to three years); *Thompson v. Allain*, 377 S.W.2d 465, 466 (Mo. App. W.D. 1964) (medical partnership).

¹⁰² *Willman v. Beheler*, 499 S.W.2d 770, 773 (Mo. 1973) (medical partnership).

¹⁰³ *Willman*, 499 S.W.2d at 773.

¹⁰⁴ *Thompson*, 377 S.W.2d at 466

¹⁰⁵ *AEE-EMF*, 906 S.W.2d at 716.

common. Missouri courts have approved three years,¹⁰⁶ five years,¹⁰⁷ eight years,¹⁰⁸ ten years,¹⁰⁹ and an unlimited time restriction.¹¹⁰ As to territory, Missouri courts have upheld restrictions of nearly a county,¹¹¹ a radius of five miles,¹¹² a radius of ten miles,¹¹³ a radius of 25 miles,¹¹⁴ three counties,¹¹⁵ a radius of 75 miles,¹¹⁶ and a radius of 200 miles.¹¹⁷

7:13. Ancillary to a valid transaction or relationship

Research References

West's Key Number Digest, Contracts &key;116(1)

C.J.S., Contracts §§249 to 254, 257 to 260

The requirement that restrictive covenants must be ancillary to a valid transaction or relationship presents little or no difficulty in most cases. When restrictive covenants are contained in an agreement selling a business, in a partnership agreement, or in an employment relationship, there is generally no question that the restrictive covenant is ancillary to a valid transaction or relationship.¹¹⁸ A Missouri court has also enforced a non-compete in a franchise context.¹¹⁹ Recently, a Missouri court held that noncompetes may be ancillary to an independent contractor relationship.¹²⁰

7:14. Must not impose an undue burden

Research References

West's Key Number Digest, Contracts &key;116(1)

C.J.S., Contracts §§249 to 254, 257 to 260

The requirement that a covenant not impose an undue burden is not as significant in Missouri as it might first appear. So long as the restrictive covenant is reasonably limited as to time and place, as previously discussed, this requirement will most likely be satisfied.

¹⁰⁶ *Montgomery v. Getty*, 284 S.W.2d 313, 314 (Mo. App. S.D. 1955) (amusement company business);

Orchard Container Corp. v. Orchard, 601 S.W.2d 299, 301 (Mo. App. E.D. 1980) (cardboard containers business).

¹⁰⁷ *Migar Enters., Inc. v. DeMent*, 817 S.W.2d 911, 912 (Mo. App. W.D. 1990) (land survey business); *Brown v. Childers*, 254 S.W.2d 275, 276 (Mo. App. W.D. 1953) (pharmacy business); *Weaver v. Jordan*, 362 S.W.2d 66, 68 (Mo. App. S.D. 1962) (restaurant sale).

¹⁰⁸ *Champion Sports Ctr., Inc. v. Peters*, 763 S.W.2d 367, 368 (Mo. App. E.D. 1989) (sporting goods, equipment, and trophy business).

¹⁰⁹ *Schnucks Twenty-Five, Inc. v. Bettendorf*, 595 S.W.2d 279, 282 (Mo. App. E.D. 1979) (wholesale or retail food business); *Hessel v. Hill*, 38 S.W.2d 490, 491 (Mo. App. W.D. 1931) (funeral home).

¹¹⁰ *Kreger Glass Co. v. Kreger*, 49 S.W.2d 260, 261 (Mo. App. W.D. 1932).

¹¹¹ *Brown*, 254 S.W.2d at 276 (all of Jackson County, except for Kansas City).

¹¹² *Weaver*, 362 S.W.2d at 68.

¹¹³ *Hessel*, 38 S.W.2d at 491.

¹¹⁴ *Kreger Glass*, 49 S.W.2d at 261.

¹¹⁵ *Champion Sports*, 763 S.W.2d at 368.

¹¹⁶ *Migar Enters.*, 817 S.W.2d at 912.

¹¹⁷ *Schnucks*, 595 S.W.2d at 282.

¹¹⁸ *Renal Treatment Ctrs.-Mo., Inc. v. Braxton*, 945 S.W.2d 557, 563 (Mo. App. E.D. 1997).

¹¹⁹ *Gold v. Holiday Rent-A-Car Int'l, Inc.*, 627 F. Supp. 280, 281 (W.D. Mo. 1985) (applying Florida law).

¹²⁰ *Renal Treatment Ctrs.*, 945 S.W.2d at 563.

In *Osage Glass, Inc. v. Donovan*,¹²¹ for example, the employee attempted to avoid honoring his contractual non-compete because of the burden enforcement would place on him. The Supreme Court rejected this argument:

Donovan argues hardship in being unable to pursue his trade. He also claims that he was fully trained by the Army in glass installation, and, contrary to the assertion in the contract, did not receive any substantial training from the plaintiff. He nevertheless accepted employment on the terms tendered. The courts should relieve him of his voluntary obligation only for substantial reason.¹²²

Inconvenience and temporary financial loss to an employee are outweighed by the courts' concern "with the importance of requiring those who solemnly assume contractual obligations, to observe and fulfill them."¹²³

7:15. Must not injure the public

Research References

West's Key Number Digest, Contracts &key;116(1)

C.J.S., Contracts §§249 to 254, 257 to 260

A restrictive covenant must not injure the public. Given the strong public policy favoring the freedom to contract, this requirement generally is easily satisfied. Missouri courts frequently express the public policy favoring the freedom to contract, which necessarily includes the enforcement of contracts.

Notwithstanding the long-standing public policy favoring the enforcement of contracts, there is sometimes a competing public interest at issue. In *Willman v. Beheler*,¹²⁴ a doctor argued that the need for a skilled surgeon in northwest Missouri outweighed his former partner's contractual right to enforce a non-compete.¹²⁵ The public interest "in protecting the freedom of persons to contract and in enforcing contractual rights and obligations," however, was paramount.¹²⁶ Moreover, a skilled surgeon was just as useful to the public outside of the restricted territory as he was inside the restricted territory.¹²⁷ Similarly, there is no public policy prohibiting restrictive covenants in the accounting field.¹²⁸ Interestingly, however, the public's right to choose a desired lawyer leads to a different result with attorneys.¹²⁹

II. Injunctive Relief and Judicial Modification

¹²¹ 693 S.W.2d 71 (Mo. 1985) (en banc).

¹²² *Osage Glass*, 693 S.W.2d at 75.

¹²³ *Prentice v. Rowe*, 324 S.W.2d 457, 466 (Mo. App. S.D. 1959).

¹²⁴ 499 S.W.2d 770 (Mo. 1973).

¹²⁵ *Willman*, 499 S.W.2d at 777.

¹²⁶ *Willman*, 499 S.W.2d at 777.

¹²⁷ *Willman*, 499 S.W.2d at 777.

¹²⁸ *Schott v. Beussink*, 950 S.W.2d 621, 628 (Mo. App. E.D. 1997).

¹²⁹ *White v. Medical Review Consultants, Inc.*, 831 S.W.2d 662, 665 (Mo. App. W.D. 1992).

7:16. Injunctive relief—Generally

Research References

West's Key Number Digest, Injunction &key;138.1

C.J.S., Injunctions §§21, 29 to 31, 42 to 43

Missouri courts require the same four-factor showing required by federal courts for determining whether equitable relief is appropriate: (1) a substantial likelihood that the movant will prevail on the merits; (2) a showing that the movant will suffer irreparable injury unless injunctive relief is granted; (3) proof that the threatened injury to the movant outweighs whatever damage the proposed injunction may cause the opposing party; and (4) a showing that the injunction, if issued, will not be adverse to the public interest.¹³⁰

7:17. Injunctive relief—Likelihood of success

Research References

West's Key Number Digest, Injunction &key;138.39

C.J.S., Injunctions §§147, 163, 166 to 170

In order to obtain injunctive relief, the movant must show a substantial likelihood of success on the merits. In the context of restrictive covenants, this means the movant must show that:

- (1) The covenant protects a legitimate business interest;
- (2) The covenant is supported by sufficient consideration;
- (3) The time and territory restrictions in the covenant are reasonable;
- (4) The covenant is ancillary to a valid transaction or relationship;
- (5) The covenant does not impose an undue burden; and
- (6) The covenant does not injure the public.

In addition, the movant must convince the reviewing court that the movant has a substantial likelihood of prevailing on any defenses the non-movant may present. For example, in *Alexander & Alexander, Inc. v. Feldman*,¹³¹ the court refused to grant injunctive relief to the plaintiff when it was not convinced that the plaintiff would ultimately prevail, because the defendant's performance of the restrictive covenant was excused due to the plaintiff's prior material breach of the employment agreement.¹³² Other contractual defenses

¹³⁰ State ex rel. Director of Revenue, State of Mo. v. Gabbert, 925 S.W.2d 838, 839 (Mo. 1996) (en banc). The final two factors are similar to the issues discussed in §§6:14 and 6:15 above.

¹³¹ 913 F. Supp. 1495 (D.Kan. 1996) (applying Missouri law).

¹³² *Alexander*, 913 F. Supp. at 1501–03. A thorough treatment of the prior material breach issue is beyond the scope of this Chapter. As a start, the reader is referred to *Supermarket Merchandising & Supply, Inc. v. Marschuetz*, 196 S.W.3d 581 (Mo. App. E.D. 2006); *Roeder v. Ferrell Duncan Clinic, Inc.* 155 S.W.3d 761 (Mo. App. S.D. 2004); *Ozark Appraisal Serv., Inc. v. Neale*, 67 S.W.3d 759 (Mo. App. S.D. 2002); *Sturgis Equipment Co., Inc. v. Falcon Indus. Sales Co.*, 930 S.W.2d 14 (Mo. App. E.D. 1996); *Ballesteros v. Johnson*, 812 S.W.2d 217 (Mo. App. E.D. 1991); *Shelbina Veterinary Clinic v. Holthaus*, 892 S.W.2d 803 (Mo. App. E.D. 1995); *Renwood Food Prods., Inc. v. Schaefer*, 240 Mo. App. 939, 223 S.W.2d 144 (E.D. 1949); *Smith-Scharff Paper Co., Inc. v. Blum*, 813 S.W.2d 27 (Mo. App. E.D. 1991); *Luketich v. Goedecke, Wood & Co., Inc.*, 835 S.W.2d 504 (Mo. App. E.D. 1992); *Forms Mfg., Inc. v. Edwards*, 705 S.W.2d 67 (Mo. App. E.D. 1985); *Adrian N. Baker & Co. v. Demartino*, 733 S.W.2d 14 (Mo. App. E.D. 1987); *Chemical Fireproofing Corp. v. Bronska*, 542 S.W.2d 74 (Mo. App. E.D. 1976); *Long*, 557 S.W.2d 911; *Prow v. Medtronic, Inc.*, 770 F.2d 117 (8th Cir. 1985) (applying Minnesota law).

are applicable. For example, the non-compete may be superceded or released by a separation agreement.¹³³ As another example, the agreement must actually prohibit the activity that gives rise to the lawsuit. Where the agreement prohibits the solicitation of customers, prospects will not be subject to an injunction.¹³⁴ Similarly, an agreement that provides that a former employee shall not “employ any other employee of Employer” will not be construed to prohibit the solicitation or supervision of employees.¹³⁵ Along the same lines, an agreement that provides for a two-year non-compete so long as the employer “carries on” the same business is not effective once the employer sells that business.¹³⁶

7:18. Injunctive relief—Irreparable injury

Research References

West's Key Number Digest, Injunction &key;138.39

C.J.S., Injunctions §§147, 163, 166 to 170

To obtain an injunction, the movant must demonstrate irreparable injury. As the Supreme Court of Missouri explained in a case involving customer contacts:

The purpose of the restriction is to keep the covenanting employee out of a situation in which he might be able to make use of contacts with customers to his former employer's disadvantage. If the covenant is lawful and the opportunity for influencing customers exists, enforcement is appropriate

Nor is it necessary for the employer to show that actual damage has occurred, in order to obtain an injunction. The actual damage might be very hard to determine, and this is one reason for granting equitable relief. The significant circumstance is potential for damage.¹³⁷

As the purpose of an injunction is to restrain actual or threatened injury, actual damage need not be shown.¹³⁸ Merely showing a breach of a non-compete can be sufficient.¹³⁹

7:19. Injunctive relief—Good cause for termination

Research References

West's Key Number Digest, Injunction &key;138.39

C.J.S., Injunctions §§147, 163, 166 to 170

The ability to obtain injunctive relief may be jeopardized if an employment relationship is terminated without just or good cause. A recent case on this point was Property

¹³³ Carboline Co. v. Lebeck, 990 F. Supp. 762, 765–66 (E.D. Mo. 1997); Marion v. Hazelwood Farms Bakeries, Inc., 969 F. Supp. 540, 542–53 (E.D. Mo. 1997).

¹³⁴ Empire Gas Corp. v. Graham, 654 S.W.2d 329, 330–31 (Mo. App. W.D. 1983).

¹³⁵ Universal Underwriters Ins. Co. v. Lyon, 896 S.W.2d 762, 764 (Mo. App. W.D. 1995).

¹³⁶ Prentice v. Williams, 324 S.W.2d 466, 470 (Mo. App. S.D. 1959).

¹³⁷ Osage Glass, 693 S.W.2d at 75; Safety-Kleen Sys., Inc. v. Hennkens, 301 F.3d 931, 935-36 (8th Circ. 2002).

¹³⁸ Reed, Roberts, 537 S.W.2d at 242. Although not a noncompete case, see also Matthews v. First Christian Church, 355 Mo. 627, 197 S.W.2d 617, 619 (Mo. 1946).

¹³⁹ Reed, Roberts, 537 S.W.2d at 242.

Tax Representatives, Inc. v. Chatam.¹⁴⁰ In that case, the employee was discharged for a violation of an unwritten policy that “existed only in [the supervisor's] mind.”¹⁴¹ Because there was no good cause, the Western District, relying on a prior case,¹⁴² upheld the trial court's refusal to grant a preliminary injunction enforcing the noncompetition agreement. The court went much further, however, and permitted the trial court, on remand, to rely on the same equitable considerations that led to the denial of an injunction to also deny a claim for damages resulting from a breach of the non-compete.¹⁴³ The nonsolicitation agreement, however, stood on a different footing because the employee holds client relationships in a fiduciary capacity for the employer.¹⁴⁴ Even though the injunction claim was now moot, the case was remanded for a determination of the damages resulting from the breach of the nonsolicitation agreement.¹⁴⁵

One difficulty with this doctrine is that just or good cause in Missouri has not been generally defined.¹⁴⁶ Insubordination, neglect, inattention, and bad business judgment constitute good cause.¹⁴⁷ Selling a competitive product in violation of a contractual provision may also constitute just cause.¹⁴⁸ Finally, ending an employment relationship because the employer was losing money on the employee's sales or, somewhat surprisingly, because the employee files a lawsuit against the employer seeking a declaratory judgment regarding a noncompetition agreement, is not sufficient to excuse performance with the non-compete.¹⁴⁹

7:20. Injunctive relief—Spirit of the contract

Research References

West's Key Number Digest, Injunction &key;61(2)

C.J.S., Injunctions §§164 to 171

Courts of equity are concerned that contracting parties follow the letter, as well as the spirit, of the contract. Opening a business outside of the prohibited territory, but actually conducting business within the prohibited territory, has been enjoined by Missouri courts.¹⁵⁰ Similarly, where a party agrees not to engage in the theater business, directly or indirectly, in St. Joseph, Missouri, operating a headquarters from St. Joseph, even though the theaters were located outside of St. Joseph, has also been enjoined.¹⁵¹

¹⁴⁰ 891 S.W.2d 153 (Mo. App. W.D. 1995).

¹⁴¹ Property Tax, 891 S.W.2d at 157.

¹⁴² Showe-Time Video Rentals, Inc. v. Douglas, 727 S.W.2d 426 (Mo. App. S.D. 1987).

¹⁴³ Property Tax, 891 S.W.2d at 157–58.

¹⁴⁴ Property Tax, 891 S.W.2d at 158.

¹⁴⁵ Property Tax, 891 S.W.2d at 158.

¹⁴⁶ Superior Gearbox Co. v. Edwards, 869 S.W.2d 239, 244 (Mo. App. S.D. 1993).

¹⁴⁷ Superior Gearbox, 869 S.W.2d at 244–45.

¹⁴⁸ Furniture Mfg., 900 S.W.2d at 648.

¹⁴⁹ Curtis 1000, 878 F. Supp. at 1262, 1270–71, & n. 47 (Iowa law).

¹⁵⁰ Hessel v. Hill, 38 S.W.2d 490, 492–93 (Mo. App. W.D. 1931).

¹⁵¹ Durwood v. Dubinsky, 361 S.W.2d 779, 795 (Mo. 1962).

7:21. Judicial modification of restrictive covenants

Research References

West's Key Number Digest, Injunction & key;189

C.J.S., Injunctions §§5, 11, 27, 347 to 348

Missouri courts have long had the ability, as courts of equity, to modify restrictive covenants. This power to modify covenants works both ways. The reviewing court can decrease the time or territory restrictions if they are more than reasonably necessary to protect the business interest at issue. On the other hand, the reviewing court can also increase the restrictions if necessary to protect the business interest at issue.

As a court of equity, a reviewing court has the authority to enforce restrictive covenants in areas perhaps broader than necessary, and to fill any gaps in contractual drafting. For example, in *Renwood Food Prods., Inc. v. Schaefer*,¹⁵² the court enforced a non-compete in three counties, even though the employee's sales area was only a part of St. Louis.¹⁵³ In *State ex rel. Schoenbacher v. Kelly*,¹⁵⁴ the court held that the absence of a time limit will not render a restrictive covenant unenforceable; instead, the agreement “will be enforceable for such period of time as would appear to be reasonable under the circumstances.”¹⁵⁵ Similarly, in a case with no territory restriction, the court enforced the restrictive covenant in Laclede County and all adjoining counties.¹⁵⁶ In *Watlow Elec. Mfg. Co. v. Wrob*,¹⁵⁷ the court held that a consent injunction that applied to various heaters “and a variety of other related or associated electric heating products and components” applied to thermocouples, even though thermocouples can be manufactured as a component of an electric heater or as a stand alone product.¹⁵⁸ Finally, in a case involving the use of engines in a racing boat, the agreement contained no time or territory limitations.¹⁵⁹ The court implied a time restriction (as long as the racing boat remained seaworthy) and suggested that an implied territory restriction of the United States was enforceable.¹⁶⁰

On the other hand, Missouri courts have frequently reduced the time limitation, the territory restriction, or both. Perhaps the best example is *Mid-States Paint & Chem. Co. v.*

¹⁵² 240 Mo. App. 939, 223 S.W.2d 144 (E.D. 1949).

¹⁵³ *Renwood*, 223 S.W.2d at 146, 150, 152.

¹⁵⁴ 408 S.W.2d 383 (Mo. App. E.D. 1966).

¹⁵⁵ *Schoenbacher*, 408 S.W.2d at 393 (citing *Kreger Glass Co. v. Kreger*, 49 S.W.2d 260, 260 (Mo. App. W.D. 1932)).

¹⁵⁶ *Montgomery v. Getty*, 284 S.W.2d 313, 316 (Mo. App. S.D. 1955).

¹⁵⁷ 899 S.W.2d 585 (Mo. App. E.D. 1995).

¹⁵⁸ *Watlow*, 899 S.W.2d at 587 & 588.

¹⁵⁹ *Brunswick Corp., Mercury Marine Div. v. Hering*, 619 S.W.2d 950, 953 (Mo. App. E.D. 1981) (applying Wisconsin law).

¹⁶⁰ *Brunswick*, 619 S.W.2d at 953. Poor drafting is another matter. If a non-compete begins to run and expires while the employee is still employed, a court will not rewrite the agreement. *Western Forms, Inc. v. Pickell*, 308 F.3d 930, 933 (8th Cir. 2002).

Herr.¹⁶¹ There, the court reduced a three-year, 350-mile non-compete to two years and 125 miles.¹⁶²

Finally, in cases where the complete absence of either a time or territory restriction might be viewed as anti-competitive or over-reaching, Missouri courts have refused to enforce restrictive covenants in their entirety.¹⁶³

A related issue is whether the injunction can be granted from the day employment is terminated or from the date the prohibited activity stops (the date of the court's decree). *Southwest Pump & Machinery Co. v. Forslund*,¹⁶⁴ affirmed a three-year injunction from the date of the decree.¹⁶⁵ In *Superior Gearbox Co. v. Edwards*,¹⁶⁶ the trial court granted an injunction for ten years from the date of its decree; the appellate court reduced the term to five years from the date of discharge.¹⁶⁷ *Continental Research Corp. v. Scholz*,¹⁶⁸ refused to enforce a provision automatically extending the restrictive covenant until the last violation or until a court decree because of the employer's failure to secure timely injunctive relief.¹⁶⁹ Finally, in *Furniture Mfg. Corp. v. Joseph*,¹⁷⁰ the court remanded for a determination of permanent injunctive relief, holding that "enforcement of the applicable period from the date of the decree would not be inequitable."¹⁷¹

III. Missouri Uniform Trade Secrets Act

7:22. Generally

Research References

West's Key Number Digest, Labor and Employment &key;305

¹⁶¹ 746 S.W.2d 613 (Mo. App. E.D. 1988).

¹⁶² *Mid-States Paint*, 746 S.W.2d at 615. The Court noted that the "better reasoned authorities" have long permitted such modifications. *Id.* at 616. See also *Schaeffer Mfg. Co. v. Ge*, 2007 WL 4219192, at * 3 (E.D. Mo. Nov. 28, 2007).

Other examples include *Continental Research Corp. v. Scholz*, 595 S.W.2d 396, 399 (Mo. App. E.D. 1980) (affirming refusal to enforce a territory restriction of a seventy-mile radius, and limiting enforcement to the assigned sales territory); *Orchard Container Corp. v. Orchard*, 601 S.W.2d 299, 304 (Mo. App. E.D. 1980); *Gelco Express Corp. v. Ashby*, 689 S.W.2d 790, 798-99 (Mo. App. W.D. 1985) (noncompete essentially modified to a nonsolicitation agreement); *Superior Gearbox Co. v. Edwards*, 869 S.W.2d 239, 248 (Mo. App. S.D. 1993) (ten years reduced to five years).

¹⁶³ *Empiregas Inc. v. Hogeland*, 538 S.W.2d 767, 768 (Mo. App. S.D. 1976) (a fifty-mile radius of any city where the employer sold products would encompass five states; because the evidence showed business only in one county, the non-compete was not enforced); *Reddi-Wip, Inc. v. Lemay Valve Co.*, 354 S.W.2d 913, 921 (Mo. App. E.D. 1962) (if the agreement not to manufacture an unpatented valve is not qualified as to time, as argued by plaintiff, it is not enforceable); *National Motor Club of Mo., Inc. v. Noe*, 475 S.W.2d 16, 22 (Mo. 1972) (a non-compete with no territory restriction is void); *Athletic Tea Co. v. Cole*, 16 S.W.2d 735, 736-37 (Mo. App. E.D. 1929) (Imperial, Missouri, and the "surrounding territory" is too vague and indefinite to enforce).

¹⁶⁴ 225 Mo. App. 262, 29 S.W.2d 165 (W.D. 1930).

¹⁶⁵ *Southwest Pump*, 29 S.W.2d at 167.

¹⁶⁶ 869 S.W.2d 239 (Mo. App. S.D. 1993).

¹⁶⁷ *Superior Gearbox*, 869 S.W.2d at 248. See also *Willman v. Beheler*, 499 S.W.2d 770, 778 (Mo. 1973) (refusing to grant injunctive relief from the date of the decree because the non-compete unambiguously provided for a non-compete period from the termination of the parties' relationship).

¹⁶⁸ 595 S.W.2d 396 (Mo. App. E.D. 1980).

¹⁶⁹ *Continental Research*, 595 S.W.2d at 402.

¹⁷⁰ 900 S.W.2d 642 (Mo. App. W.D. 1995).

¹⁷¹ *Furniture Mfg.*, 900 S.W.2d at 649. See also *Silvers, Asher*, 16 S.W.3d at 346.

Missouri has adopted the Uniform Trade Secrets Act.¹⁷² The Act has now been adopted in over 40 states, plus the District of Columbia. The Act affords broad protection for trade secrets. The sections that follow review the Act as enacted in Missouri, as well as cases decided under the Act. In addition, they discuss the inevitable disclosure doctrine, a judicially-created doctrine that affords even greater protection under the Act by preventing an employee from working for a competitor when the employment would inevitably cause the employee to disclose or use the former employer's trade secrets.

7:23. Trade secrets

Research References

West's Key Number Digest, Labor and Employment &key;306

One of the first questions under the Missouri Uniform Trade Secrets Act¹⁷³ is whether trade secrets are present. The Act's definition is flexible and fact-specific.¹⁷⁴ In Missouri, a "trade secret" is information, including, but not limited to, technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique, or process.¹⁷⁵ In addition, a trade secret must derive independent economic value, either actual or potential, from not being generally known or readily ascertainable by proper means by competitors. Further, a company must take reasonable efforts to maintain the secrecy of such information. What constitutes reasonable efforts depends upon the circumstances.¹⁷⁶ Thus, a trade secret can be almost anything that is secret and derives value from that secrecy.

7:24. Misappropriation

Research References

West's Key Number Digest, Labor and Employment &key;305

The Missouri Uniform Trade Secrets Act¹⁷⁷ provides remedies for the actual or threatened "misappropriation" of trade secrets.¹⁷⁸ "Misappropriation" can take place in several ways. First, misappropriation can occur by acquisition of the trade secret by someone who knows or should know that the trade secret was acquired by improper means.¹⁷⁹ Second, misappropriation can occur by the disclosure or use of a trade secret by someone who has not obtained consent, either express or implied, and who used improper means to acquire the knowledge, knew or should have known that the information was a trade secret and that the information had been obtained by accident or mistake, or, at the time of the disclosure, knew or should have known that the trade secret was derived from someone who used improper means to obtain it, was obtained under circumstances giving rise to a duty to maintain its

¹⁷² V.A.M.S. §§417.450, *et seq.*

¹⁷³ V.A.M.S. §§417.450, *et seq.*

¹⁷⁴ See *Lyn-Flex W., Inc. v. Dieckhaus*, 24 S.W.3d 693, 698–700 (Mo. App. E.D. 1999) (reversing a trial court's directed verdict because a failure to stamp price books as confidential, for example, is not dispositive).

¹⁷⁵ V.A.M.S. §417.453(4).

¹⁷⁶ V.A.M.S. §417.453(4)(a) & (b).

¹⁷⁷ V.A.M.S. §§417.450, *et seq.*

¹⁷⁸ V.A.M.S. §417.455.1.

¹⁷⁹ V.A.M.S. §417.453(2)(a).

secrecy or limit its use, or was obtained from someone who owed a duty to the person seeking to protect the trade secret or limit its use.¹⁸⁰

The Act also defines “improper means” to include theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.¹⁸¹

7:25. Remedies

Research References

West's Key Number Digest, Labor and Employment &key;324

The remedies under the Missouri Uniform Trade Secrets Act¹⁸² are as broad and fact-specific as the definition of trade secrets. Injunctions can be granted to prevent actual or threatened misappropriations.¹⁸³ Although an injunction can be terminated once trade secrets cease to exist, an injunction can be continued for an additional “reasonable” period to eliminate any commercial advantage that would otherwise be derived from the misrepresentation.¹⁸⁴ In “exceptional circumstances,” an injunction can condition future use upon payment of a reasonable royalty.¹⁸⁵ Such circumstances include, but are not limited to, “a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.”¹⁸⁶ Affirmative acts can also be compelled.¹⁸⁷

Damages are also recoverable. The Act specifically provides that damages include both the actual loss caused by the misappropriation, as well as any unjust enrichment caused by the misappropriation that is not taken into account in computing actual loss.¹⁸⁸ Alternatively, a reasonable royalty is permissible.¹⁸⁹ Finally, punitive damages are available if the misappropriation is outrageous due to an evil motive or reckless indifference to the rights of others.¹⁹⁰

7:26. Statute of limitations

Research References

West's Key Number Digest, Labor and Employment &key;320

The statute of limitations under the Missouri Uniform Trade Secrets Act¹⁹¹ is five years after the misappropriation is or reasonably should have been discovered.¹⁹² If the

¹⁸⁰ V.A.M.S. §417.453(2)(b).
¹⁸¹ V.A.M.S. §417.453(1).
¹⁸² V.A.M.S. 417.450, *et seq.*
¹⁸³ V.A.M.S. §417.455.1.
¹⁸⁴ V.A.M.S. §417.455.1.
¹⁸⁵ V.A.M.S. §417.455.2.
¹⁸⁶ V.A.M.S. §417.455.2.
¹⁸⁷ V.A.M.S. §417.455.3.
¹⁸⁸ V.A.M.S. §417.457.1.
¹⁸⁹ V.A.M.S. §417.457.1.
¹⁹⁰ V.A.M.S. §417.457.2.
¹⁹¹ V.A.M.S. §§417.450, *et seq.*
¹⁹² V.A.M.S. §417.461.

misrepresentation is “continuous,” it constitutes a single claim.¹⁹³ The Act does not apply to misappropriations (including continuous misappropriations) that began prior to August 28, 1995, the effective date of the Act.¹⁹⁴

7:27. Relationship with other laws

Research References

West's Key Number Digest, Labor and Employment &key;305

The Missouri Uniform Trade Secrets Act¹⁹⁵ displaces any state tort, restitutionary, or other laws “providing civil remedies for misappropriation of a trade secret.”¹⁹⁶ The Act does not, however, displace contractual remedies, other civil remedies not based upon misappropriation of a trade secret, or criminal remedies.¹⁹⁷

7:28. Judicial interpretation

Research References

West's Key Number Digest, Labor and Employment &key;305

Only a few Missouri courts have issued reported decisions considering the Missouri Uniform Trade Secrets Act.¹⁹⁸ In *Carboline Co. v. Lebeck*,¹⁹⁹ the court refused to grant a preliminary injunction. Much of the information plaintiff sought to protect as a trade secret quickly became stale, was readily available in trade publications, or had not been adequately protected.²⁰⁰

The purpose of the Act is to make uniform the law among the states with respect to trade secrets.²⁰¹ Thus, in the absence of Missouri authority, cases decided in other jurisdictions should be persuasive authority.

Courts in Kansas have granted relief under the Act as enacted by Missouri. In *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. S. Zimmerman*,²⁰² the court, applying Missouri law, granted a temporary restraining order to protect “confidential records and information.”²⁰³ In *Sperry Rail, Inc. v. Herzog Servs., Inc.*,²⁰⁴ the court granted a preliminary injunction and enjoined a competitor from employing a former employee of plaintiff in “any capacity which

¹⁹³ V.A.M.S. §417.461.

¹⁹⁴ V.A.M.S. §417.467. Prior to enactment of the Missouri Act, Missouri followed the test set forth in the Restatement of Torts §757. *E.g.*, *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1, 18–19 (Mo. 1966) (en banc). Although this seven-factor test is no longer directly applicable, it is a useful checklist of relevant issues and provides guidance. *Lyn-Flex W., Inc. v. Dieckhaus*, 24 S.W.3d 693, 698 (Mo. App. E.D.

¹⁹⁵ V.A.M.S. §§417.450, *et seq.*

¹⁹⁶ V.A.M.S. §417.463.1.

¹⁹⁷ V.A.M.S. §417.463.2.

¹⁹⁸ V.A.M.S. §§417.450, *et seq.*

¹⁹⁹ V.A.M.S. §417.465.

²⁰⁰ 990 F. Supp. 762 (E.D. Mo. 1997).

²⁰¹ *Carboline*, 990 F. Supp. at 767. These are not new legal principles. *Metal Lubricants & Co. v. Engineered Lubricants Co.*, 411 F.2d 426, 428 (8th Cir. 1969). *See also* *Young Dental Mfg. Co. v. Q3 Special Prods., Inc.*, 891 F. Supp. 1345, 1350–51 (E.D. Mo. 1995) (publicly available software and widely-distributed market plans are not trade secrets).

²⁰² 1996 WL 707107 (D.Kan. Oct. 1, 1996).

²⁰³ *Merrill Lynch*, 1996 WL 707107, at *1.

²⁰⁴ 1996 WL 507305 (D.Kan. Aug. 5, 1996).

will call upon him to use or disclose any trade secrets or confidential information of plaintiff²⁰⁵ The information at issue included various research and development results, engineering information, sales and marketing strategies, and pricing statements.²⁰⁶

IV. Doctrine of Inevitable Disclosure

7:29. Generally

Research References

West's Key Number Digest, Injunction &key;138.33

C.J.S., Injunctions §§116 to 118, 120, 267 to 269, 271 to 272, 274 to 275

Among the remedies afforded by the Missouri Uniform Trade Secrets Act,²⁰⁷ injunctive relief may be procured to prevent the “threatened misappropriation” of trade secrets.²⁰⁸ Courts, however, have struggled in determining when a threat is significant enough to justify an injunction. This uncertainty has led to a particularly noteworthy hesitance in providing injunctive relief where the threat of trade secret misappropriation is most prolific: an employee's departure to a competitor.²⁰⁹ Businesses have been left with little guidance on their rights to the most effective means to thwart the disclosure risked when a key employee leaves to compete with her or his former employer.

One approach formulated to determine when an ex-employee's competition sufficiently threatens misappropriation to justify injunctive relief is the doctrine of inevitable disclosure. This doctrine maintains that an ex-employee who enjoyed access to his or her employer's confidential information will inevitably misappropriate trade secrets when taking a similar job with a direct competitor, and the employee and the new employer fail to demonstrate a sufficient ability to prevent improper disclosures.²¹⁰ Upon successful application of this doctrine, a company is not merely entitled to a prohibition of trade secret disclosure, but may procure an injunction prohibiting the ex-employee from working at the new job—even in the absence of a covenant not to compete.

While the dearth of Missouri authority applying this doctrine prevents certainty in evaluating the future application of this doctrine,²¹¹ a review of pertinent cases from other jurisdictions helps reveal the likely use and treatment of the doctrine. The doctrine's potential applicability to future trade secrets disputes underscores the importance of understanding uses of the doctrine.

²⁰⁵ Sperry Rail, 1996 WL 507305, at *7.

²⁰⁶ Sperry Rail, 1996 WL 507305, at *7.

²⁰⁷ V.A.M.S. §§417.450, *et seq.*

²⁰⁸ V.A.M.S. §417.455.

²⁰⁹ 1 Milgram on Trade Secrets §5.01.

²¹⁰ *See* FMC Corp. v. Varco Int'l, Inc., 677 F.2d 500 (5th Cir.1982); Union Carbide Corp. v. UGI Corp., 731 F.2d 1186 (5th Cir.1984); PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir.1995).

²¹¹ A California court reads H&R Block E. Tax Servs., Inc. v. Enchura, 122 F. Supp. 2d 1067 (W.D. Mo. 2000) as adopting the doctrine. Whyte v. Schlage Lock Co., 125 Cal. Rptr. 2d 277, 291 (Cal. Ct. App. 2002); a district court in Kansas, applying Missouri law, precluded a former employee of plaintiff from working for a competitor in Sperry Rail, 1996 WL 507305, at *7, but did not mention the inevitable disclosure doctrine by name.

7:30. Formulation of the doctrine

Research References

West's Key Number Digest, Injunction &key;138.33

C.J.S., Injunctions §§116 to 118, 120, 267 to 269, 271 to 272, 274 to 275

A tool promulgated to establish the “threatened” misappropriation of trade secrets, the inevitable disclosure doctrine, posits that an ex-employee's work with a competitor will inevitably result in the disclosure of her or his previous employer's trade secrets, regardless of the ex-employee's or competitor's intent to refrain from such improper disclosure. Under this doctrine, the very nature of the ex-employee's job duties inherently require use of the previous employer's trade secrets. Employment with the competitor is therefore enjoined. An injunction prohibiting the employment is deemed the only effective means of preventing plaintiff's trade secrets from infiltrating the employee's current work.

Successful application of the inevitable disclosure doctrine typically requires proof of three factors: (1) the former and new employers are competitors; (2) the ex-employee's new position is comparable to his former position; and (3) no effective steps can or have been taken to prevent misappropriation.²¹²

In perhaps the best known case applying the inevitable disclosure doctrine,²¹³ *PepsiCo, Inc. v. Redmond*,²¹⁴ plaintiff brought a claim under Illinois' version of the Uniform Trade Secrets Act.²¹⁵ In that action, PepsiCo sought a preliminary injunction against an ex-employee, William Redmond, and his current employer, Quaker Oats, to prevent Redmond from assuming any duties with Quaker relating to beverage product pricing, marketing, and distribution.²¹⁶

As general manager of PepsiCo's California region, Redmond's duties required exposure to virtually all of PepsiCo's marketing and distribution trade secrets.²¹⁷ Redmond entered into a confidentiality agreement with PepsiCo providing that he would not disclose any confidential information relating to the business of PepsiCo. After a ten-year tenure with PepsiCo, Redmond was offered the position of Chief Operating Officer for Quaker's combined Gatorade and Snapple business unit.²¹⁸

In seeking an injunction, PepsiCo claimed that Redmond's position with the Gatorade/Snapple company would inevitably result in the disclosure of PepsiCo's trade secrets, including its strategic plans, pricing architecture, attack plans, selling and delivery system secrets, and marketing strategy.²¹⁹ As Redmond would have substantial input into Quaker's pricing, costs, margins, distribution systems, and marketing, PepsiCo argued that

²¹² See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir.1995).

²¹³ David J. Berger, et al., *Inevitable Disclosure Law Remains Unsettled*, Nat'l L.J., May 12, 1997, at C38; James A. DiBoise & David J. Berger, *When Disclosure is “Inevitable,” Liability is Not*, Nat'l L.J., May 20, 1996, at C30.

²¹⁴ 54 F.3d 1262.

²¹⁵ The Illinois Act contains an injunction provision identical to that found in the Missouri Act. Under the Illinois Act, courts may enjoin “the actual or threatened misappropriation” of trade secrets. 765 ILCS 1065/3(a).

²¹⁶ *PepsiCo.*, 54 F.3d at 1263.

²¹⁷ *PepsiCo.*, 54 F.3d at 1264.

²¹⁸ *PepsiCo.*, 54 F.3d at 1264.

²¹⁹ *PepsiCo.*, 54 F.3d at 1265–66.

Redmond could not help but allow PepsiCo's trade secrets to infiltrate his work with Quaker.²²⁰

Quaker and Redmond defended against the inevitable disclosure theory by claiming that Redmond simply would be integrating a preexisting plan, rendering any special knowledge of PepsiCo's strategies irrelevant. Quaker also cited differences in the company's distribution systems as additional reasons why PepsiCo's trade secrets would not be disclosed.²²¹ Defendants pointed to Redmond's confidentiality agreement and Quaker's Code of Ethics, which both prohibited disclosure of PepsiCo's trade secrets.²²² Defendants also raised the basic conflict between the inevitable disclosure theory and the intrinsic value that workers be allowed to pursue their livelihoods upon departure from their current positions.²²³

In enjoining Redmond's employment with Quaker, the court found that Redmond would necessarily be making his decisions about Gatorade and Snapple by relying on his knowledge of PepsiCo's trade secrets.²²⁴ The court found persuasive PepsiCo's argument that Redmond could not help but rely, even if unintentionally, upon PepsiCo's trade secrets as he helped shape Gatorade and Snapple's new competitive strategy. Quaker, the court reasoned, would have a substantial advantage by knowing exactly how PepsiCo would price, distribute, and market its drinks.²²⁵ These advantages would accrue regardless of whether Quaker copied the PepsiCo trade secrets, as mere knowledge of the secrets would enable Quaker to benefit in the marketplace. The court found the differences in the companies' marketing and delivery systems irrelevant to PepsiCo's claims and analogized PepsiCo's situation to that of a coach whose players have left, playbook in hand, to join the opposing team for the big game.²²⁶ The danger, the court concluded, was not of copying but of knowing PepsiCo's strategy, knowledge that could easily damage PepsiCo in the marketplace.

Another crucial component in the court's analysis was the focus upon PepsiCo's "particular plans or processes" to which Redmond had exposure, rather than his general skills and knowledge. The court used this factor to distinguish precedent rejecting the inevitable disclosure doctrine.²²⁷ As discussed below, PepsiCo was careful to define its trade secrets narrowly enough to satisfy the statute yet broadly enough to be unamenable to only an injunction prohibiting the disclosure of trade secrets.

Ultimately, the court's mistrust of Redmond, stemming from his lack of forthrightness in the exit process, cannot be underestimated as a determinative factor in its analysis. Despite accepting the position with Quaker on November 8, 1994, he later informed four separate PepsiCo officials that he was leaning in favor of accepting the new position, but had not yet accepted it.²²⁸ The trial court emphasized this lack of forthrightness as tainting Redmond's testimony at trial.²²⁹ This reluctance in believing either Redmond or his promise to refrain from disclosing PepsiCo's trade secrets was dispositive for the court.²³⁰

²²⁰ PepsiCo., 54 F.3d at 1265–66.

²²¹ PepsiCo., 54 F.3d at 1266.

²²² PepsiCo., 54 F.3d at 1266.

²²³ PepsiCo., 54 F.3d at 1268.

²²⁴ PepsiCo., 54 F.3d at 1269.

²²⁵ PepsiCo., 54 F.3d at 1270.

²²⁶ PepsiCo., 54 F.3d at 1270.

²²⁷ PepsiCo., 54 F.3d at 1269.

²²⁸ PepsiCo., 54 F.3d at 1264.

²²⁹ PepsiCo., 54 F.3d at 1267.

²³⁰ PepsiCo., 54 F.3d at 1271.

The inevitable disclosure doctrine was applied even more broadly in *Uncle B's Bakery, Inc. v. O'Rourke*.²³¹ In *Uncle B's*, a bagel manufacturer brought suit seeking to enjoin O'Rourke, a former plant manager, from working for its competitor, Brooklyn Bagel Boys.²³² Despite the new employer's proof that it (1) specifically asked its new employee not to divulge any trade secrets of prior employers; (2) was already aware of Uncle B's purported trade secret it had rejected as commercially infeasible; and (3) did not have plans to develop or use plaintiff's trade secret process, the court enjoined the former manager's employment with Brooklyn Bagel Boys.²³³ The court noted that there was significant danger that plaintiff's confidential information would be inadvertently disclosed in the course of O'Rourke's employment with Brooklyn Bagel Boys. In summarizing the rationale for its use of the inevitable disclosure doctrine, the court stated:

Where the one kind of knowledge ends and the other begins is sufficiently uncertain in this case to raise a realistic threat of inadvertent disclosure of trade secrets, and consequently a threat of irreparable harm to Uncle B's Bakery from O'Rourke's continued employment with Brooklyn Bagel Boys. Furthermore, the Court finds it highly unlikely that O'Rourke would not draw upon processes or solutions employed by Uncle B's Bakery²³⁴

The court relied on the notion articulated in *PepsiCo* that “unless (the employee) possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about [the new employer's products] by relying on his knowledge of [his former employer's] trade secrets.”²³⁵

As in *PepsiCo*, the court relied upon the “particularized plans or processes” of which the plaintiff feared disclosure, rather than O'Rourke's general skills in applying the inevitable disclosure theory.²³⁶ This distinction again proved crucial in distinguishing negative case law.

Here, too, O'Rourke's veracity had much to do with the court's willingness to enjoin his employment. While Uncle B's Bakery was unable to produce a copy of the signed confidentiality agreement it claimed existed, the court nonetheless found that such an agreement was certainly entered into and subsequently misplaced or stolen by O'Rourke.²³⁷ Also, at the time of his resignation, O'Rourke assured Uncle B's that he was not going to work for a competitor.²³⁸ While the court disclaimed this lack of forthrightness as a basis for its decision, the effect of O'Rourke's questionable veracity is evident throughout the opinion. As such, the honesty of the ex-employee is a critical factor in the result.

The most thoughtful post-*PepsiCo* treatment of the inevitable disclosure doctrine occurred in *Merck & Co., Inc. v. Lyon*.²³⁹ In *Merck*, the makers of *Pepcid A/C* used the inevitable disclosure doctrine to obtain an injunction preventing an ex-employee from working in a similar capacity with the makers of *Zantac 75*, a rival product.

Like *Redmond* in *PepsiCo*, the ex-employee in *Merck* was an upper-level manager who enjoyed significant exposure to Merck's trade secrets.²⁴⁰ The court found that the employee's new responsibilities would be sufficiently similar to the responsibilities he had assumed while employed by Merck and enjoined him from working in a similar capacity with

²³¹ 920 F. Supp. 1405 (N.D.Iowa 1996).

²³² *Uncle B's*, 920 F. Supp. at 1435.

²³³ *Uncle B's*, 920 F. Supp. at 1435.

²³⁴ *Uncle B's*, 920 F. Supp. at 1409.

²³⁵ *Uncle B's*, 920 F. Supp. at 1409 (citing *PepsiCo.*, 54 F.3d at 1269).

²³⁶ *Uncle B's*, 920 F. Supp. at 1436.

²³⁷ *Uncle B's*, 920 F. Supp. at 1416, 1418–20.

²³⁸ *Uncle B's*, 920 F. Supp. at 1419.

²³⁹ 941 F. Supp. 1443 (M.D.N.C.1996).

²⁴⁰ *Merck*, 941 F. Supp. at 1459.

Merck's competitor, Glaxo. In so doing, the court found that the employee would inevitably draw upon his knowledge of Merck's trade secrets in fulfilling his responsibilities with Glaxo.²⁴¹

Again, the ex-employee appeared to be less than forthright in his representations to Merck about his future employment with Glaxo.²⁴² While there is no evidence to suggest that Glaxo sought to recruit the employee because of his knowledge of plaintiff's trade secrets, the court did find the ex-employee's misrepresentations regarding his future employment to be an adequate basis to question his ability to keep his word with respect to the confidentiality agreement.²⁴³ The employee, when asked by his former employer whether he intended to go work for a competitor, denied the possibility and indicated that he was considering a couple of opportunities outside the pharmaceutical field.²⁴⁴ The court determined that if the employee would misrepresent the truth in order to gain an advantage in a severance package, he would likely also find the temptation to succeed at his new position too much for him to disregard the confidential information he possessed regarding plaintiff's operations.²⁴⁵

Conversely, in cases rejecting the inevitable disclosure theory, courts have put significant weight on the credibility of ex-employees and their assurances that they would refrain from disclosing their employer's trade secrets.²⁴⁶ In those cases, the departed employees' testimony that they had no intention of disclosing trade secrets was sufficient to defeat a request for injunctive relief.

In *Interbake Foods, LLC v. Tomasiello*, 461 F. Supp. 2d 943 (N.D. Iowa 2006), the District Court further clarified the doctrine in explaining that, "courts generally consider the present state and nature of industries at issue to determine whether the alleged harm would be irreparable and the injunctive relief granted in cases where the employee's knowledge would allow a competitor to improve its business with little or no effort, or were the present and former employees were endeavoring to develop the identical product and the breaching employee has learned exactly how his former employer was making the product." The Iowa Court further reasoned that, "the inevitable disclosure doctrine is just one way of showing a threatened disclosure in cases where additional evidence showing the existence of a substantial threat of impending injury is unavailable to the movant." *Id.* Accordingly, one should utilize the inevitable disclosure doctrine as a means of proving a "threatened disclosure" which entitles a movant to seek injunctive relief under the terms of the statute.

7:31. Strategic benefits

Research References

West's Key Number Digest, Injunction &key;138.33

C.J.S., Injunctions §§116 to 118, 120, 267 to 269, 271 to 272, 274 to 275

²⁴¹ Merck, 941 F. Supp. at 1461.

²⁴² Merck, 941 F. Supp. at 1461.

²⁴³ Merck, 941 F. Supp. at 1461.

²⁴⁴ Merck, 941 F. Supp. at 1448.

²⁴⁵ Merck, 941 F. Supp. at 1461.

²⁴⁶ *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1194 (8th Cir. 1992); *Young Dental Mfg. Co. v. Q3 Special Prods., Inc.*, 891 F. Supp. 1345, 1352 (E.D. Mo. 1995); *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1483 (W.D.N.C.1995).

Application of the inevitable disclosure doctrine is frequently the key component in a company's efforts to protect vital trade secret information. This result is true for a number of reasons, arising primarily from the difficulty in proving actual misappropriation of trade secrets as well as the general importance of procuring injunctive relief.

A company attempting to prove misappropriation of confidential information encounters a formidable burden. Because of the rigorous proof required to demonstrate misappropriation, the typical dearth of evidence establishing an actual use of trade secrets, and the ease of a simple denial of any intention to use the trade secrets by an ex-employee, reliance upon the inevitable disclosure theory is frequently the only way in which a party can establish a case for injunctive relief. As one court has noted:

Plaintiffs in trade secret cases, who must prove by a fair preponderance of the evidence disclosure to third parties and use of the trade secret by the third parties, are confronted with an extraordinarily difficult task. Misappropriation and misuse can rarely be proved by convincing direct evidence. In most cases, plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince them that it is more probable than not that what plaintiffs allege happen did, in fact, take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.²⁴⁷

The intent requirement in the Economic Espionage Act²⁴⁸ further exacerbates this difficulty. As such, a party's most significant obstacle in litigating its trade secret rights is frequently proving actual or threatened misappropriation. The doctrine imposes a more lenient burden of proof on a trade secret claimant seeking injunctive relief. *Osteotech, Inc. v. Biologic, LLC*, 2008 WL 686318 (D.N.J. 2008). Use of the inevitable disclosure doctrine not only eases this burden by eliminating the need to prove any actual misappropriation or even an intent to misappropriate, but actually shifts the burden to defendant to demonstrate that the new employment will not involve the previous employer's trade secrets.²⁴⁹

The importance of obtaining injunctive relief before actual disclosure of trade secrets has occurred further highlights the importance of this doctrine. The urgency in procuring such a remedy is evident for several reasons. First, the very nature of a trade secret renders it practically worthless once it is disclosed to a competitor. The survival of many businesses hangs in the balance as financial viability depends upon the protection of its trade secrets. Subsequent redress of the misappropriation at trial may frequently be "too little, too late." The futility of subsequent relief in protecting a company's secrets is highlighted by a series of recent decisions finding that Internet-posting of a company's confidential information destroys its status as a trade secret.²⁵⁰

Additionally, the difficulty in proving actual money damages, especially for secrets that have not yet been marketed, renders subsequent relief less likely to compensate fully a victim. The fact that the ex-employee defendant may be judgment-proof further highlights the inadequacy of money damages. The time and money a business must invest in order to fight for a monetary recovery also make it a less desirable, and sometimes futile, outcome.

Procuring injunctive relief through application of the inevitable disclosure theory is the most effective way to safeguard against disclosure by an ex-employee currently working

²⁴⁷ *Greenberg v. Croydon Plastics Co., Inc.*, 378 F. Supp. 806, 814 (E.D.Pa.1974).

²⁴⁸ 18 U.S.C.A. §1832.

²⁴⁹ Other recent cases have clarified that the doctrine will not relieve a plaintiff of its burden of proving specific trade secret misappropriation. *Degussa Admixtures, Inc. v. Burnett*, 2008 WL 1960861 (6th Cir. 2008).

²⁵⁰ *Religious Technology Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231 (N.D.Cal.1995); *Religious Technology Ctr. v. F.A.C.T. Net, Inc.*, 901 F. Supp. 1519 (D.Colo.1995); *Religious Technology Ctr. v. Lerma*, 897 F. Supp. 260 (E.D.Va.1995).

for a competitor. While nondisclosure agreements, promises of ex-employees and competitors to refrain from using the organization's trade secrets, and even court orders all rely upon the veracity of ex-employees and competitors, successful use of the inevitable disclosure doctrine preventing actual employment does not necessarily depend upon defendants' veracity.²⁵¹ Indeed, even the most well-intentioned of individuals may unintentionally disclose trade secrets in the course of their employment, regardless of their promises to the contrary. By preventing the ex-employee's employment with a competitor, the risk of intentional and inadvertent disclosure is greatly mitigated.

Finally, successful application of the theory secures other benefits of keeping ex-employees from working with competitors that may not otherwise be protected by the trade secret laws. Preventing a competitor from acquiring general knowledge, customer contacts, goodwill, or simply an exceptional employee are all possible unintended benefits of the doctrine that a confidentiality agreement or court order would not secure.²⁵²

7:32. Relationship to restrictive covenants

Research References

West's Key Number Digest, Contracts &key;118

C.J.S., Contracts §§249 to 254, 257 to 260, 267 to 268

Successful use of the inevitable disclosure theory not only determines the scope of relief one may receive under the Missouri Uniform Trade Secrets Act,²⁵³ but it also greatly influences how courts will enforce non-compete agreements entered into between employers and employees. Some courts have declined to enforce non-compete contracts when there is a failure to prove an imminent disclosure of trade secrets.²⁵⁴ Absent proof that an ex-employee will inevitably disclose trade secrets, many courts rewrite the parties' non-compete agreements into nondisclosure agreements or, worse yet, refuse to enforce such agreements in their entirety. By stripping an employer of its contractual protections, these courts have put employers who obtain non-compete agreements in the same boat as employers who fail to secure such agreements.²⁵⁵

The Eighth Circuit's decision in *Baxter Int'l, Inc. v. Morris*²⁵⁶ highlights this view as well as the importance the doctrine has upon the enforcement of non-compete agreements. In *Baxter*, plaintiff, a microbiological diagnostic equipment developer, sued to enjoin its former employee from working with its competitor in violation of the parties' non-compete

²⁵¹ Indeed, while a non-compete agreement is still a vital ingredient in an effort to protect trade secrets, the inevitable disclosure theory may be a way to capture the benefits of a non-compete agreement while avoiding the scrutiny to which such contracts are subjected and the occasional difficulty in procuring such an agreement.

²⁵² The doctrine is, therefore, criticized as a "retroactive alteration" of the employment relationship. *Whyte, Id.* at 1463.

²⁵³ V.A.M.S. §§417.450, *et seq.*

²⁵⁴ See Anthony A. Bongiorno & James J. Marcellino, Even Businesses That Have Written Noncompete Clauses May Need To Prove The Existence Of A Trade Secret Or Its Imminent Disclosure To Enforce The Agreement, *Nat'l L. J.*, Oct. 28, 1996, at B6.

²⁵⁵ See *System Software Assocs. Inc. v. Trapp*, 1995 WL 506058 (N.D.Ill. Aug. 18, 1995); *Neeco Inc. v. Computer Factory, Inc.*, 1987 WL 16161 (D.Mass. Aug. 19, 1987); *Marcam Corp. v. Orchard*, 885 F. Supp. 294 (D.Mass. 1995). In *Marcam*, while the Court found plaintiff had a legitimate interest in protecting against the inevitable use of its confidential information, it required proof of such in the face of an undisputably valid covenant not to compete.

²⁵⁶ 976 F.2d 1189 (8th Cir. 1992).

agreement.²⁵⁷ The Eighth Circuit upheld the trial court's decision, striking the non-compete agreement, based upon its finding that enforcement of the non-compete agreement was unnecessary to prevent disclosure of Baxter's trade secrets.²⁵⁸ The court found that it was "fairly common in the industry for employees to be hired away by competitors without disclosing trade secrets."²⁵⁹ The court gave significant weight to the new employer's representations that it did not intend to elicit trade secrets from Morris, the employee in question, and found insufficient evidence that it could use Baxter's technology for its current purposes.²⁶⁰

Instead of enforcing the non-compete agreement and enjoining Morris' work, the court merely entered an order enjoining Morris from disclosing Baxter's trade secrets. The court assessed little risk that Baxter's trade secrets would be inevitably disclosed during Morris' employment with his new employer. In so doing, the court imposed the burden of demonstrating inevitable disclosure upon parties attempting to enforce compliance with valid noncompetes. As such, even when armed with an employee's agreement that he will not work for a competitor, a company must nonetheless be prepared to demonstrate effectively how that ex-employee's future employment will inevitably result in the disclosure of its trade secrets. Absent such a showing, the agreement may not be enforced by the courts.²⁶¹ The inevitable disclosure doctrine must, therefore, frequently be applied even when seeking to enforce a non-compete agreement.

7:33. Strategies for utilizing the doctrine—Generally

Research References

West's Key Number Digest, Injunction &key;138.33

C.J.S., Injunctions §§116 to 118, 120, 267 to 269, 271 to 272, 274 to 275

The cases discussing the inevitable disclosure doctrine provide insight into the strategies an organization should pursue in enhancing its chances of barring its employee from working with a competitor. While Missouri courts have not yet expressly adopted the doctrine, the law is taking hold in other jurisdictions²⁶² and will likely be the source of future litigation in Missouri.²⁶³ There are a variety of steps a company can take to either bolster its chances of procuring equitable relief or mitigate the chances that such an injunction will issue against it when making a new hire from a competitor.

²⁵⁷ Baxter Int'l, 976 F.2d at 1192.

²⁵⁸ Baxter Int'l, 976 F.2d at 1194.

²⁵⁹ Baxter Int'l, 976 F.2d at 1194.

²⁶⁰ Baxter Int'l, 976 F.2d at 1194.

²⁶¹ See Gregory M. Curley, Use of Noncompetition Agreements to Protect Proprietary Information: Baxter Int'l, Inc. v. Morris, 27 Creighton L.Rev. 915 (1994).

²⁶² "Our survey confirms the majority of jurisdictions addressing the issue have adopted some form of the inevitable disclosure doctrine." *Whyte*, 125 Cal. Repr. 2d at 1460, "A number of recent decisions, principally from federal district courts, have used proof of inevitable disclosure as a basis for enforcing restrictive covenants." *Payment Alliance Int'l, Inc. v. Ferreira*, 530 F. Supp. 2d 477, 481 (S.D.N.Y. 2007).

²⁶³ The Eighth Circuit Court of Appeals moved slightly in the direction of the inevitable disclosure doctrine when it upheld a plaintiff's trade secret misappropriation action. The court held that a party may prove trade secret misappropriation without direct evidence of the misappropriation. *Teleconnect Co. v. Ensrud*, 55 F.3d 357 (8th Cir. 1995). See also *Southwestern Energy Co. v. Eickenhorst*, 955 F. Supp. 1078 (W.D.Ark.1997), *aff'd*, 175 F.3d 1025 (8th Cir. 1999) (direct evidence of trade secret misappropriation is not required and may be proven by demonstrating that individual will inevitably disclose trade secrets if not enjoined).

The factors upon which other courts have either implicitly or explicitly relied in enjoining employment with a competitor appear to be as, if not more, important than the three factors discussed in *PepsiCo., Inc. v. Redmond*,²⁶⁴ and provide guidance on trade secret strategies. The relative technological capabilities of the two companies, the parties' veracity, and the breadth of the secrets sought to be protected are frequently the difference in whether or not a company is successful in securing injunctive relief.

7:34. Strategies for utilizing—Comparable technology

Research References

West's Key Number Digest, Injunction &key;138.33

C.J.S., Injunctions §§116 to 118, 120, 267 to 269, 271 to 272, 274 to 275

When the new employer lacks comparable technology and the court is prone to infer that the new company's hiring is motivated out of a desire to bridge the technology gap, the chances of a court finding an inevitable disclosure are greatly enhanced. As such, companies should isolate and identify key technologies their competitors do not possess, document developmental efforts, monitor competitors' products, and be prepared to demonstrate the gap in that technology.

Likewise, if a current employer can demonstrate that specific skills and knowledge of a particular process constitute the trade secret, rather than the general knowledge or know-how of the employee, a party's chances of enjoining the employment are enhanced. To the extent that the trade secret identified is ambiguous, and a clear demarcation between general knowledge and specific skills is lacking, it is unlikely that the doctrine will be applied. Because courts will reject wholesale claims that all expertise gained by the departing employee constitutes a trade secret, it is important to specify and focus upon the information considered a trade secret.²⁶⁵ Companies should alert their employees, both at the time of exposure as well as termination, as to what information is considered a trade secret. Similarly, noncompete and nondisclosure agreements should specify the information deemed secret.

7:35. Strategies for utilizing—Defining a trade secret

Research References

West's Key Number Digest, Labor and Employment &key;306

There is typically a dilemma in choosing whether to provide a broad or narrow definition of the trade secret. By characterizing the trade secret in as broad a manner as possible, a plaintiff is more likely to demonstrate inevitable disclosure, given a party's inability to compartmentalize knowledge, while a narrow classification of a trade secret lends itself to the crafting of a mere nondisclosure injunction. Courts have provided virtually no insight on the threshold showing of when a worker will “inherently” and “inevitably” be making decisions based upon the confidential information of his or her previous employer. However, the broader “trade secret” is defined, the less likely the court will find such

²⁶⁴ 54 F.3d 1262 (7th Cir.1995).

²⁶⁵ *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1482 (W.D.N.C.1995).

information to be a protectible trade secret.²⁶⁶ This tradeoff underscores the need to have specific plans for each trade secret.

Additionally, organizations must consistently and diligently act to protect their trade secrets to avoid claims of acquiescence and waiver.²⁶⁷ To the extent that a company has previously permitted similarly situated employees to depart for competitors, the chances of procuring injunctive relief are greatly lessened.

A Missouri court reached the doctrine in *H & R Block E. Tax Servs., Inc. v. Enchura*.²⁶⁸ The plaintiff argued that PepsiCo. allowed injunctive relief if employees were exposed to “trade secrets.”²⁶⁹ The court disagreed and held that PepsiCo required a “demonstrated inevitability in combination with a finding that there is unwillingness to preserve confidentiality.”²⁷⁰ The court stated, “if [exposure to trade secrets] were all the proof that were necessary, plaintiffs [and other employees] could achieve greater restrictions on former employees than they could contract for explicitly.”²⁷¹ In addition, the court reasoned that the employer was not involved in creating the trade secret, the information was not easily memorized, and the employee's new duties were different enough to not imply reliance on the information.²⁷² Therefore, the court held that disclosure was not inevitable, and the employee's unwillingness to preserve confidentiality was irrelevant.²⁷³

Judge Smith's decision is instructive to a plaintiff seeking to apply the doctrine for several reasons. Initially, Judge Smith reasoned that PepsiCo required both inevitable disclosure and an unwillingness to preserve confidentiality.²⁷⁴ Additionally, the court determined that the defendant must be making decisions in the same areas covered by plaintiff's trade secrets and have been so intimately involved that defendant cannot help but consider the secrets while performing duties.²⁷⁵

In another recent case involving a plaintiff's use of the doctrine, *Conseco Finance Servicing Corp. v. North American Mortgage*,²⁷⁶ Judge Weber displayed significant skepticism about the doctrine, concerned that it provided relief when plaintiffs otherwise failed to procure executed non-compete agreements. Concluding that covenants not to compete were a preferred solution, the court did not apply the doctrine.²⁷⁷

²⁶⁶ Hence, in *Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405 (N.D.Iowa 1996), the court's broad definition of specific skills and inclusion of defendant's knowledge of such, as opposed to general skills and knowledge, led it to believe that disclosure would be inevitable. 920 F. Supp. at 1405.

²⁶⁷ See *Surgidev Corp. v. Eye Technology, Inc.*, 828 F.2d 452, 457 (8th Cir. 1987).

²⁶⁸ *H & R Block E. Tax Servs., Inc. v. Enchura*, 122 F. Supp. 2d 1067 (W.D. Mo. 2000).

²⁶⁹ 122 F. Supp. 2d at 1074.

²⁷⁰ 122 F. Supp. 2d at 1075

²⁷¹ 122 F. Supp. 2d at 1076.

²⁷² 122 F. Supp. 2d at 1076.

²⁷³ 122 F. Supp. 2d at 1076.

²⁷⁴ 122 F. Supp. 2d at 1075.

²⁷⁵ 122 F. Supp. 2d at 1075.

²⁷⁶ *Conseco Finance Servicing Corp. v. North American Mortgage*, 2000 WL 33739340 (E.D. Mo. Dec. 6, 2000), *aff'd*, 24 Fed.Appx. 655 (8th Cir. 2002); see also *Conseco Finance Servicing Corp. v. North American Mortgage*, 381 F.3d 811 (8th Cir. 2004).

²⁷⁷ *Conseco Finance Servicing Corp.*, 2000 WL 33739340.

7:36. Strategies for utilizing—Dealing with employees

Research References

West's Key Number Digest, Labor and Employment &key;306

In applying the inevitable disclosure doctrine, cases reveal that the courts place great reliance upon the respective veracity of the ex-employee and the current employer/competitor.²⁷⁸ That is, to the extent the ex-employee has demonstrated forthrightness, the chances that his or her employment will be enjoined are minimized. However, evidence that an employee misrepresented plans in order to hide future employment will go a long way in convincing a court that misappropriation is likely.

As such, organizations should act promptly in interviewing a departing employee, specifically asking questions concerning plans for future employment. This strategy provides an opportunity for the departing employee to indicate honestly her or his intentions. The company should also monitor access to documents containing trade secrets in order to verify whether a departing employee has misappropriated documents. Courts have demonstrated more willingness to invoke the doctrine upon a showing of impropriety by the departing employee.

Additionally, a company must react quickly to protect its trade secrets upon the employee's departure. The more time that elapses from knowledge of the threatened misappropriation to the filing of a lawsuit, the less likely a court will be to provide injunctive relief. Even two weeks of delay can prejudice a party's right to injunctive relief.²⁷⁹ Moreover, as discussed previously, delay in procuring an injunction greatly increases the chances that the trade secret will be lost forever.

When hiring, take steps to avoid liability by making sure new employees understand company policy and their responsibility to avoid using the previous employer's trade secrets. The policy should be published in the company manual. Additionally, companies should ensure that documents from previous employers are not brought with the new employee. Finally, companies should document and retain significant developments in order to refute claims that secrets have been misappropriated.

²⁷⁸ The court in *PepsiCo., Inc. v. Redmond* found the lack of forthrightness by Redmond as probative of his "willingness to misuse" his former employer's trade secrets. 54 F.3d 1262, 1267, 1271 (7th Cir.1995).

²⁷⁹ *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. S. Zimmerman*, 1996 WL 707107, at *3 (D.Kan. Oct. 1, 1996).