

Trade Secret Law Evolution Podcast

Episode 62

Greenberg Traurig, LLP

Speaker 1 ([00:00](#)):

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Jordan Grotzinger ([00:18](#)):

Welcome to the Trade Secret Law Evolution Podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends in trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host, Jordan Grotzinger.

Speaker 3 ([00:37](#)):

Hi, everybody. Welcome to episode 62. Today we're going to be talking about the enforceability of non-compete agreements in Missouri and a recent California case on the issue of preemption. Might be wondering why we're going to talk about non-competes in Missouri, because it's a pretty hot topic nationally, including in my home state of California where these kinds of agreements are pretty strictly prohibited and it's interesting to see how other jurisdictions treat these kinds of agreements.

([01:06](#)):

So jumping right in on that issue, this case came down on February 5th of this year. The defendant was a Minnesota farmer who found the plaintiff company on YouTube and bought some of its products. He liked the product, so he started selling them himself to supplement his farming income. The plaintiff's CEO connected the defendant to a local plaintiff company dealer, which sold plaintiff's products to the defendant, which he then sold through his company.

([01:35](#)):

While the defendant never directly worked for the plaintiff, he was held out to the public as a plaintiff team member and listed it as a dealer on plaintiff's website among other things. In August of 2022, the defendant attended a plaintiff team meeting in Branson, Missouri at which the plaintiff's leadership planned to present confidential business information about the plaintiff's products and strategies.

([02:00](#)):

The defendant signed an agreement of confidentiality so that he could attend the meeting. The agreement included a non-compete clause that prohibited the defendant from soliciting or promoting products for the plaintiff's competitors. After that meeting, the defendant continued to sell the plaintiff's products until September 2023 when the defendant ended his relationship with the plaintiff and began selling similar products for a plaintiff competitor.

([02:28](#)):

The plaintiff filed a motion for a temporary restraining order to stop the defendants from selling the competitor's products. In Missouri quote, "Courts generally enforce a non-compete agreement if it is

demonstratively reasonable. A non-compete agreement is reasonable if it is no more restrictive than is necessary to protect the legitimate interests of the employer," close quote. Already very different from California and some other states. The court went on, quote, "A non-compete agreement is enforceable only to the extent that the restrictions protect the employer's trade secrets or customer contacts," close quote.

[\(03:04\)](#):

And quote, "The employer has the burden to prove that the non-compete agreement protects its legitimate interests in trade secrets or customer contacts and that the agreement is reasonable as to the time and geographic space," close quote. The court found that the plaintiff quote, "Presented enough evidence to raise serious and difficult questions about its protected interest in customer goodwill.

[\(03:30\)](#):

The court said that customer contacts has been defined as essentially the influence an employee acquires over his employer's customers through personal contact," close quote. And quote, "An employer has a protectable right in both customers and goodwill," close quote. The court explained that the quote, "Goodwill that develops from customer contacts between the salesman or business partner and the company's customer is essential to the company's success and is the reason the employee or the business partner is remunerated," close quote.

[\(04:09\)](#):

The defendant's and the plaintiff's employment relationship here was not a traditional employee employer relationship as I described before. In that case, the court noted quote, "Missouri law does not provide a clear answer to the enforceability of a non-compete in a non-standard employment relationship, but it does allow for the protection of consumer contacts from misuse by entities other than just an employee," close quote.

[\(04:35\)](#):

So quote, "The question currently before the court is whether the costs of the plaintiff's business model include losing the protectable interest it might otherwise have claimed in the defendant's customer contacts," close quote. Under Missouri Law, quote, "A company does not automatically have a protectable interest in any customer that buys its product, but it is entitled to utilize non-compete agreements to protect itself from unfair competition by misuse of the employee's customers contacts developed at its expense," close quote.

[\(05:12\)](#):

"There is evidence in the record," the court said, that the plaintiff quote, "Materially contributed to the defendant's development of his customer relationships," close quote. For example, the defendant sold no agricultural products before selling the plaintiff's products. The plaintiff also provided the defendant with customer leads and financial support in quote, "Cultivating plaintiff customers at events like trade shows," close quote.

[\(05:40\)](#):

In short, the court said the defendant quote, "Apparently benefited from the plaintiff's help as he built his business and customer base. Neither party has pointed to Missouri case law clearly delineating how much support financial or otherwise a company must give to a business partner to secure a protected interest in the business partner's customers. But the plaintiff has shown that it is close enough to the line to temporarily restrain the defendant from poaching its protected customer contacts while the court engages in more deliberate investigation," close quote.

[\(06:17\)](#):

On the other hand, the court said the plaintiff quote, "Did not meet its burden to show that the agreement protected a legitimate interest in trade secrets. Evidence of purported trade secrets must be more than general assertions but must be sufficiently specific to allow a determination by the court," close quote. And the plaintiff did not provide evidence quote, "Beyond general assertions to show that the defendant received protected trade secrets," close quote.

[\(06:45\)](#):

Thus, the court said quote, "Without information that allows the court to determine whether the defendant received trade secret information, the court will not restrain the defendant from using any information that could fall under the agreement's broad description of confidential information," close quote. But on balance the plaintiff, the court said, quote, "Has made a sufficient showing that the balance of equities requires the court to intervene to preserve the status quo until the merits are determined," close quote.

[\(07:20\)](#):

Thus, the TRO or temporary restraining order was granted in part. And we will get to the takeaways from that case as we usually do. Next we address a recent California Federal District Court case on preemption. This case also came down on February 5th, 2024. According to the complaint, the plaintiff provides fire safety services to hospitals and healthcare facilities. The defendant is a competitor trying to break into that market.

[\(07:50\)](#):

The individual defendants as opposed to the corporate defendant were employees of the corporate defendant who began diverting the plaintiff's business opportunities to the corporate defendant. The individual defendants became corporate defendant employees, quote, "Taking with them computers and documents containing the plaintiff's confidential information," close quote.

[\(08:11\)](#):

The defendant sued for various contract and tort claims but not trade secret misappropriation. The defendants moved to dismiss on the ground among others that the [inaudible 00:08:23] or non-contractual claims, specifically the ones for breach of fiduciary duty of loyalty, breach of the fiduciary duty of confidentiality, conversion, inducing a breach of contract and interference with prospective economic advantage are preempted by California's Uniform Trade Secrets Act.

[\(08:46\)](#):

The Uniform Trade Secrets Act quote, "Preempt non-contractual claims that are based on the same nucleus of facts as a claim for the misappropriation of a trade secret. However, non-contractual claims are not preempted if they also have a factual basis independent of the misappropriation of a trade secret," close quote. The plaintiff's breach of the duty of loyalty claim is based on the allegation that the individual defendants solicited the plaintiff's customers and employees while they were still employed by the plaintiff.

[\(09:19\)](#):

Thus, the court concluded that the claim quote, "Has a factual basis independent of the misappropriation of a trade secret," close quote, and is not preemptive. The breach of fiduciary duty of confidentiality is based on the allegation that the individual defendants use the plaintiff's confidential information without the plaintiff's authorization.

[\(09:43\)](#):

In analyzing that issue, the court discussed the Ninth Circuit Court of Appeals case where the defendant allegedly violated his fiduciary duty of confidentiality by sharing confidential information with a

competitor, and the court here found that quote, "The Ninth Circuit reached its holding after concluding that the claim for breach of the fiduciary duty of confidentiality did not specifically require that the confidential information be a trade secret," close quote.

[\(10:12\)](#):

Thus, this claim too, quote, "Has a factual basis independent of the misappropriation of a trade secret because it is based on the individual defendant's improper use of a plaintiff's confidential information regardless of whether that confidential information was a trade secret," close quote, and therefore the claim is not preempted, the court said.

[\(10:34\)](#):

This is an interesting wrinkle because other case law confirms that the purpose of the Uniform Trade Secret Act, consistent with its name, is to make law about the misappropriation of confidential information uniform and preempt all non-contractual and non-criminal claims for misappropriation of confidential information regardless of whether it rises to the level of trade secret. That way all such claims are governed by one law.

[\(11:04\)](#):

In any event, this was the court's finding here. As to the conversion or stealing claim, the court found that the claim for the quote, "Alleged theft of its computers and documents as a factual basis independent of the misappropriation of a trade secret and is not dependent upon the existence of a trade secret," close quote. And therefore also is not preempted.

[\(11:30\)](#):

As to the part of that claim for the alleged theft of its customer lists, quote, "That portion of the claim does not have a factual basis independent of the misappropriation of a trade secret," close quote, and therefore is preempted. The court noted that quote, "Generally customer lists can be trade secrets. Consequently, that portion of the conversion claim is preempted by the Uniform Trade Secrets Act," close quote.

[\(11:58\)](#):

The claim for inducing breach of contract quote, "Is based on the allegation that the defendant wrongfully induced the individual defendant's to breach their employment contracts with the plaintiff by having them use the plaintiff's confidential information to solicit the plaintiff's customers and transfer their business to the defendant, the corporate defendant," close quote.

[\(12:20\)](#):

The court said that quote, "No California Court of Appeal or Ninth Circuit case has considered whether the Uniform Trade Secrets Act preempts a claim for inducing breach of contract," close quote. Regardless, the plaintiff's quote, "Claim for inducing breach of contract has a factual basis independent of the misappropriation of a trade secret and is not dependent upon the existence of a trade secret," close quote.

[\(12:47\)](#):

There isn't a further explanation in the court's opinion and you can certainly see arguments on the other side based on the uniformity rationale I mentioned before. And finally, the claim for interference with prospective economic advantage quote, "Is based on the allegation that the defendant's interfered with the plaintiff's relationships, with its customers so that they could foster their own relationships with those same customers," close quote.

[\(13:14\)](#):

The court said quote, "Again, no California Court of Appeal or Ninth Circuit case has considered whether the Uniform Trade Secrets Act preempts a claim for interference with prospective economic advantage. Regardless, the plaintiff's claim for interference with prospective economic advantage has a factual basis independent of the misappropriation of a trade secret and is not dependent upon the existence of a trade secret," close quote. Again, no further explanation or analysis by the court. Thus, this court found that most claims were not preempted.

[\(13:49\)](#):

The takeaways today, one jurisdiction treats non-competes differently. In California, non-competes are strictly prohibited. In fact, there was some law that came down, statutory law that came down at the beginning of this year effectively codifying longstanding case law prohibiting non-competes in California, and even requiring that employers notify certain employees if they had a non-compete provision in their contract and notify them that such a provision is invalid.

[\(14:28\)](#):

In jurisdictions like Missouri, on the other hand, non-competes can be enforced even if trade secret misappropriation isn't proven. Number two, the Uniform Trade Secrets Act quote, "Preempts non-contractual claims that are based on the same nucleus of facts as a claim for the misappropriation of a trade secret." However, non-contractual claims that are not preempted if they also have a factual basis independent of the misappropriation of a trade secret," close quote. As demonstrated by the recent Central District of California case, this can be a fine line.

[\(15:06\)](#):

Parties arguing for preemption would be wise to remind the courts that the Uniform Trade Secrets Act is designed to make law about stealing confidential information uniform, as indicated by the statute's name, such that preemption should necessarily encompass such conduct even if the confidential information at issue may not rise to the level of a trade secret. That's it for today. Thanks for listening. See you next time. Bye, everybody.

Jordan Grotzinger [\(15:40\)](#):

Okay, that's a wrap. Thanks for joining us on this episode of the Trade Secret Law Evolution Podcast. As the law evolves, so will this podcast. So we value your feedback. Let us know how we can be more helpful to you. Send us your questions and comments. You can reach me by email at Grotzingerj@gtlaw.com or on LinkedIn. And if you like what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on Apple Podcast, Stitcher, Spotify, and other platforms. Thanks, everybody. Until next time.