

Non-Compete Agreements and Unfair Competition — An Updated Overview

I. INTRODUCTION

Contracts are enforceable, right? Not always, at least not when it comes to non-compete agreements. Indeed, employers and their employees often have misconceptions about the enforceability of restrictive covenants. The employer is often convinced of its ability to enforce the agreement to prevent its employee from competing, while the employee often believes that the restrictions are so stifling that they would never be enforced against him. In other words, one of the parties to a non-compete agreement often has a false perception with respect to his rights or obligations.

Employees must be aware that Missouri courts enforce non-compete agreements to protect an employer from *unfair* competition by a former employee. However, employers must also be aware that a court will not enforce such agreements merely to protect the former employer from competition. The enforcement of non-compete agreements is restricted. Non-compete agreements are enforceable only to the extent that they are “reasonably necessary to protect narrowly defined and well-recognized employer interests.”²

Over the past decade, there has been a marked increase of employers’ use of non-compete agreements, which has led to a corresponding increase in litigation over them. In fact, since the publication of *Non-Compete Agreements – An Overview*,



William M. Corrigan, Jr.¹



Michael B. Kass¹

in the May-June 1998 edition of *The Journal of The Missouri Bar*,³ at least a dozen Missouri appellate and federal court decisions have been reported addressing restrictive covenants.⁴ This article is intended to provide a comprehensive overview and update of this area of the law.

II. ENFORCEABILITY OF NON-COMPETES

The purpose of enforcing a non-compete agreement “is to protect an employer from unfair competition by a former employee without imposing unreasonable restraint on the latter.”⁵ “Protection of the employer, not punishment of the employee, is the essence of the law.”⁶ “An employer cannot extract a restrictive covenant from an employee merely to protect himself from competition.”⁷ The Supreme Court of Missouri has stated that “[a]greements of this kind restrain commerce and limit the employee’s freedom to pursue his or her trade.”⁸ Therefore, as restraints on trade, “enforcement of such agreements . . . is carefully restricted.”⁹

The two interests an employer may protect with a non-compete agreement are the employer’s trade secrets and customer contacts and relationships.¹⁰ These two interests often represent the heart of the litigation over a non-compete agreement, as an employer must show that one of those interests will be protected by

¹ William M. Corrigan, Jr. is a partner at the law firm of Armstrong Teasdale LLP in St. Louis. He is the chairperson of the firm’s Covenants Not to Compete/Unfair Competition Practice Group, and represents both employers and employees concerning the enforcement of non-compete agreements. He is a past president of The Missouri Bar.

Michael B. Kass is an associate attorney with the law firm of Armstrong Teasdale LLP in St. Louis. He is a member of the firm’s Covenants Not to Compete/Unfair Competition Practice Group, Business Services Department and Employment and Labor Law Practice Group. Mr. Kass also represents both employers and employees concerning the enforcement of non-compete agreements.

² *Washington County Mem. Hosp. v. Sidebottom*, 7 S.W.3d 542, 545 (Mo. App. E.D. 1999) (citing *Easy Returns Midwest, Inc. v. Schultz*, 964 S.W.2d 450, 453 (Mo. App. E.D. 1998)). See also *Osage Glass, Inc. v. Donovan*, 693 S.W.2d 71 (Mo. 1985).

³ *Non-Compete Agreements – An Overview* was written by William M. Corrigan, Jr., and appeared in the May-June 1998 edition of THE JOURNAL OF THE MISSOURI BAR. The present article updates and expands upon the 1998 article. (Cite 54 J. Mo. BAR 140.)

⁴ As of the submission of this article for publication, the last time the Supreme Court of Missouri directly addressed the issue of the enforceability of non-compete agreements was more than 20 years ago, in *Osage Glass, Inc. v. Donovan*, 693 S.W.2d 71 (Mo. banc 1985). However, on February 28, 2006, the Supreme Court heard oral arguments in *Healthcare Services of the Ozarks, Inc. v. Copeland*, 2005 WL 1759942 (Mo. App. S.D. 2005), a non-compete case in which the Southern District Court of Appeals overturned a trial court’s order enforcing a non-compete agreement. See Section II.B. of this article for a discussion of the *Healthcare Services* case.

enforcement of the non-compete agreement.

A. What is a Trade Secret (or Confidential Information) and How Can an Employer Protect It?

Before defining the types of information that may qualify as confidential information, it bears noting that one of the most important characteristics of the information making it protectable is that it *actually be confidential* or, at the very least, the employer must have taken reasonable steps under the circumstances to maintain its confidentiality.¹¹

Trade secrets consist of “technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique, or process that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use.”¹² A “trade secret must be secret”¹³ or must have been “the subject of efforts

that are reasonable under the circumstances to maintain its secrecy.”¹⁴ “Matters of public knowledge or of general knowledge in an industry” are not trade secrets.¹⁵

Importantly, in certain circumstances a trade secret may include customer information and customer lists.¹⁶ Other examples include codes for determining discounts, rebates or other concessions in a price list or catalogue.¹⁷

Aside from protecting trade secrets through the enforcement of a non-compete agreement, Missouri law does provide some protection even without a non-compete agreement. Missouri has adopted the Uniform Trade Secrets Act (UTSA), which provides remedies for misappropriation and threatened misappropriation of a company’s trade secrets by a former employee (or any third party) with or without a non-compete agreement.¹⁸ As with non-compete agreements, in order to prevent a former employee from competing under the UTSA, the former employer “must do

more than assert that a skilled employee is taking his abilities to a competitor.”¹⁹

No Missouri state court has explicitly adopted what is commonly known as the “inevitable disclosure” doctrine.²⁰ In general, the inevitable disclosure doctrine as applied in other states provides – as one would expect from its name – that an employer may enjoin an employee from working for a competitor if it is “inevitable” that the employee will use or disclose his former employer’s trade secrets.²¹ In Missouri, if an employer wants the most protection against the disclosure of its trade secrets, it should have its employees sign non-compete and confidentiality agreements rather than rely on Missouri statutory protections.

Again, even though information may at first blush *seem* to be a trade secret because it is of such high value to the employer, if it is not *actually* confidential or if *reasonable efforts* have not been employed to maintain its confidentiality, it may in fact not qualify as a protectable interest either for the purposes of

⁵ *Superior Gearbox Co. v. Edwards*, 869 S.W.2d 239, 247 (Mo. App. S.D. 1993) (quoting *Continental Research Corp. v. Scholz*, 595 S.W.2d 396, 400 (Mo. App. E.D. 1980)). See also *Armstrong v. Cape Girardeau Physician Assoc.*, 49 S.W.3d 821, 825 (Mo. App. E.D. 2001); *Silvers, Asher, Sher & McLaren v. Batchu*, 16 S.W.3d 340, 344 (Mo. App. W.D. 2000).

⁶ *Superior Gearbox*, 869 S.W.2d at 247 (quoting *Continental Research*, 595 S.W.2d at 400).

⁷ *Steamatic of Kansas City, Inc. v. Rhea*, 763 S.W.2d 190, 192 (Mo. App. W.D. 1988); *West Group Broadcasting, Ltd. v. Bell*, 942 S.W.2d 934, 937 (Mo. App. S.D. 1997).

⁸ *Osage Glass*, 693 S.W.2d at 73.

⁹ *Id.* at 73-74 (citing *Orchard Container Corp. v. Orchard*, 601 S.W.2d 299, 303 (Mo. App. E.D. 1980)). See also *Healthcare Services of the Ozarks, Inc. v. Copeland*, 2005 WL 1759942, *4 (Mo. App. S.D., July 27, 2005) (internal citations omitted).

¹⁰ See, e.g., *Victoria’s Secret Stores*, 157 S.W.3d 256, 260 (Mo. App. E.D. 2004) (“[a] restrictive covenant . . . is only valid and enforceable if it is necessary to protect trade secrets and customer contacts . . .”); *Easy Returns*, 964 S.W.2d at 453 (“[a]n employer may only seek to protect . . . its trade secrets and its stock in customers”) (citing *Orchard Container*, 601 S.W.2d at 303); *Superior Gearbox*, 869 S.W.3d at 247-48 (“[a]n employer has protectable interests in . . . trade secrets and customer contacts.”) (citing *Mid-States Paint & Chemical Co. v. Herr*, 746 S.W.2d 316, 617 (Mo. App. E.D. 1988), and *Continental Research*, 595 S.W.2d at 400); *Emerson Electric Co. v. Rogers*, 418 F.3d 841, 844-45 (8th Cir. 2005) (same).

¹¹ *Kessler-Heasley Artificial Limb Co. v. Kenney*, 90 S.W.3d 181, 188-89 (Mo. App. S.D. 2002) (citing *AEE-EMF, Inc. v. Passmore*, 906 S.W.2d 714, 722 (Mo. App. W.D. 1995)).

¹² *Conseco Finance Serv. Corp. v. North American Mortgage Co.*, 381 F.3d 811, 818-19 (8th Cir. 2004) (citing *Lyn-Flex West, Inc. v. Dieckhaus*, 24 S.W.3d 693, 697-98 (Mo. App. E.D. 1999)). See also *Victoria’s Secret*, 157 S.W.3d at 262 (citing § 417.453(4), RSMo Supp. 2005).

¹³ *Kessler-Heasley*, 90 S.W.3d at 188-89.

¹⁴ *Conseco Finance Serv.*, 381 F.3d at 819. See also § 417.453(4)(b), RSMo Supp. 2005.

¹⁵ *Kessler-Heasley*, 90 S.W.3d at 188-89 (citing *AEE-EMF*, 906 S.W.2d at 722 and *Steamatic*, 763 S.W.2d at 194).

¹⁶ *Conseco Finance Serv.*, 381 F.3d at 819.

¹⁷ See, e.g., *Kessler-Heasley*, 90 S.W.3d at 188 (“A trade secret may also include a list of customers”) (citing *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1, 18-19 (Mo. banc 1966)); *Cape Mobile Home Mart, Inc. v. Mobley*, 780 S.W.2d 116, 118 (Mo. App. E.D. 1989); *Mid-States Paint*, 746 S.W.2d at 618; *Conseco Finance Serv.*, 381 F.3d at 819.

¹⁸ Section 417.450, et seq., RSMo Supp. 2005.

¹⁹ *Caroline Co. v. Lebeck*, 990 F. Supp. 762, 767 (E.D. Mo. 1997) (citing *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995)).

²⁰ Federal courts within Missouri have discussed the limited reach of the doctrine (or a form of it) under Missouri law, indicating that a limited form of the inevitable disclosure doctrine may exist in Missouri. See, e.g., *H&R Block Eastern Tax Serv., Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1075 (W.D. Mo. 2000); *Caroline*, 990 F. Supp. at 767. The court in *H&R Block* noted that “demonstrated inevitability” of disclosure “is insufficient to justify injunctive relief” that would prevent the former employee from working for a competitor. *H&R Block Eastern Tax Serv.*, 122 F. Supp. at 1075. Rather, the court held, demonstrated inevitability must be accompanied by “a finding that there is unwillingness to preserve confidentiality.” *Id.* Cf. *Baxter Int’l, Inc. v. Morris*, 976 F.2d 1189, 1193-95 (8th Cir. 1992) (applying Missouri law and rejecting plaintiff’s request for an injunction preventing former employees from working for competitor because of inevitable disclosure of trade secrets).

²¹ See, e.g., *Strata Marketing, Inc. v. Murphy*, 740 N.E.2d 1166, 1177-79 (Ill. App. Ct. 2000) (citing *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995)).

enforcing a non-compete agreement or enforcing rights under the Uniform Trade Secrets Act.²² Whether the former employer's purported confidential information or trade secrets (*e.g.*, price structures, profit margins, and certain types of customer lists) are, in fact, secret or whether they are generally known within the industry must be analyzed on a case by case basis.

Moreover, while certain types of information and documents may for a time period constitute trade secrets, they may lose that status because they become stale, losing their independent economic value. Such was the case in *Victoria's Secret Stores v. May Dep't Stores Co.*²³ In *Victoria's Secret*, a former May Company executive, Mark Weikel ("Weikel"), sought to accept an executive position with Victoria's Secret. In affirming the trial court's refusal to enforce the non-compete agreement, the Missouri Court of Appeals held, in part, that May could not show that it had trade secrets that would be protected by enforcement of the non-compete agreement because the trade secrets at issue had a short shelf life. The court found that the strategic plans produced by May's intimate apparel business were changed and updated every couple of months. Moreover, other reports purportedly critical to May's intimate apparel business were useful for no more than a six-month time period. The Court of Appeals noted that "while the actual reports themselves would be potentially valuable to a competitor when issued, the useful life of the reports is relatively short."²⁴ Moreover, supporting the court's conclusion was the fact that the individual in charge of May's intimate apparel business was only subject to a six-month

non-compete agreement.²⁵ By the time the trial court issued its ruling, nearly six months had already elapsed since Weikel had left May.²⁶ Thus, there was no longer any independent economic value that could be derived from the disclosure or use of the information by Victoria's Secret.

B. Who is a Customer?

"A customer is one who repeatedly has business dealings with a particular tradesman or business."²⁷ An employer attempting to enforce a restrictive covenant "must have a stock of customers who regularly deal with the employer," or there is no protectable interest.²⁸ If the customers only use the employer's services on a single occasion or there is little repeat business, the employer likely does not have a stock of customers and there is no protectable interest.²⁹

The Missouri Court of Appeals has further provided the policy underlying the protection of this interest:

The rationale for protecting "customer contacts" is that, in the sales industry, a customer's goodwill toward a company is often attached to the employer's individual sales representative, and the employer's product or service becomes associated in the customer's mind with that representative. The sales employee is thus placed in a position to exert a special influence over the customer and entice that customer's business away from the employer. "Because it is this special influence that justifies enforcement of non-compete covenants, the quality, frequency and duration of

employee's exposure to the customers is of crucial importance in determining the reasonableness of the restriction."³⁰

One recent Eighth Circuit case analyzing whether the former employer possessed a protectable interest in its customers is *Emerson Electric Co. v. Rogers*.³¹ In that case, the defendant was a former sales representative of Emerson Electric for the sale of the company's ceiling fans to retailers throughout the southeast United States.³² In 1997, and then again in 1999, he signed a non-compete agreement that prohibited him from working in the same sales territory for any company selling products competitive with those manufactured by Emerson Electric. Nevertheless, in 2004 the defendant terminated his relationship with Emerson and began to sell ceiling fans of a competitor in the same territory.

Emerson succeeded in obtaining injunctive relief against its former salesman in the federal district court. The former salesman argued that the non-compete agreement was unenforceable because Emerson did not have a protectable interest at stake. In support of his argument, the former employee purported to present facts that he sold different types of products from different manufacturers to the same customers, which resulted in the customers not necessarily associating him with any particular manufacturer. In addition, he apparently introduced some evidence that he had relationships with many of the customers prior to his employment with Emerson. The district court rejected his arguments, specifically noting that the evidence showed that he had a "special influence over Emerson's customers."³³

²² See, *e.g.*, *Carboline*, 990 F. Supp. at 767-78.

²³ *Victoria's Secret Stores*, 157 S.W.3d at 263.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.* at 259.

²⁷ *Kessler-Heasley*, 90 S.W.3d at 186 (citing *Silvers, Asher, Sher & McLaren*, 16 S.W.3d at 345 and *Empire Gas Corp. v. Graham*, 654 S.W.2d 329, 330 (Mo. App. W.D. 1983)). See also *Steamatic*, 763 S.W.2d at 192 (citing *Empire Gas*, 654 S.W.2d at 330-31).

²⁸ *Kessler-Heasley*, 90 S.W.3d at 186 (citing *Empire Gas*, 654 S.W.2d at 330-31). See also *Steamatic*, 763 S.W.2d at 192.

²⁹ *Steamatic*, 763 S.W.2d at 192; *Ibur & Assocs. Adjustment Co. v. Walsh*, 595 S.W.2d 33 (Mo. App. E.D. 1980).

³⁰ *Easy Returns*, 964 S.W.2d at 453 (citing *Continental Research*, 595 S.W.2d at 400-01). See also *Kessler-Heasley*, 90 S.W.3d at 186 (citing several Missouri cases); *Superior Gearbox*, 869 S.W.2d at 248 (citing *Continental Research*, 595 S.W.2d at 401).

³¹ 418 F.3d 841 (8th Cir. 2005).

³² *Id.* at 842-43.

³³ *Id.* at 845.

The court also noted that Emerson's former sales representative had knowledge of the company's "sales practices, pricing strategies, and marketing mechanisms," and that "Emerson [had] a legitimate interest in restraining [the former salesman] from using that knowledge in the immediate future to lure away its customers."³⁴ Thus, the district court rejected the salesman's attempt to argue the non-existence of a protectable interest, particularly with respect to Emerson's customer relationships. The Eighth Circuit upheld the district court's decision.³⁵

Outside of the sales context, Missouri courts have often enforced non-compete agreements against physicians and nurse practitioners.³⁶ For example, in the case of *Silvers, Asher, Sher & McLaren v. Batchu*, the court held that the former employer, a neurology medical clinic, successfully proved that it had a protectable interest in its patients, even though the former employee (a physician) had only worked for the clinic for a few months before his employment was terminated.³⁷ The court found that the former employee-physician could exert significant influence over patients he saw while employed by the clinic.

By comparison, the Southern District Court of Appeals recently held that non-compete agreements could not be enforced against healthcare workers providing home healthcare to patients.³⁸

In *Healthcare Services of the Ozarks v. Copeland*, two former employees had provided home healthcare for patients of the plaintiff, Healthcare Services of the Ozarks. As a condition of their employment, they signed non-compete agreements. Both eventually left Healthcare Services to join a competing business. Healthcare Services filed a lawsuit to enforce its non-compete agreements and prevent its former employees from competing. In its effort to obtain injunctive relief, Healthcare Services introduced evidence that "it is generally known in the industry that when a field employee of an in-home services provider changes employment to another provider, the clients served by that field employee will often request . . . that their services be moved to the provider of the new employer."³⁹ Based on this and other evidence, the trial court granted the plaintiff's request for an injunction. The Court of Appeals, however, reversed the decision of the trial court, holding that the former employees had not "acquired the type of influence" over their former employer's patients that would justify enforcement of a non-compete agreement.⁴⁰ The Court of Appeals did not, however, distinguish the line of authority allowing the enforcement of non-compete agreements against physicians and nurse practitioners.⁴¹ On November 1, 2005, the *Healthcare Services* case was transferred from the

Court of Appeals to the Supreme Court of Missouri. Oral arguments took place on February 28, 2006.⁴² An important aspect of the Court's decision will likely be an analysis of whether Healthcare Services' relationships with its patients constituted a protectable interest with respect to their employees servicing those patients.

Finally, in the accounting profession, at least one Missouri appellate court has held that an accounting firm had a protectable interest in its client relationships and enforced a restrictive covenant on that basis.⁴³ In that case, the court specifically noted that restrictive covenants entered into with accountants are enforceable and are not against public policy.⁴⁴

C. A Recent Example of a "Carefully Restricted" Non-Compete

As indicated above, the Missouri Court of Appeals recently upheld a trial court's refusal to enforce a non-compete agreement against a former May Company executive (Weikel) who had accepted a position with Victoria's Secret.⁴⁵ The court held that not only did May fail to prove it had a protectable interest in trade secrets, but that Victoria's Secret and May were not in "material competition" under the non-compete agreement at issue.⁴⁶ The non-compete agreement provided that the executive could not work for a "competing

³⁴ *Id.*

³⁵ *Id.* at 847. *Cf. West Group Broadcasting, Ltd. v. Bell*, 942 S.W.2d 934 (Mo. App. S.D. 1997). In *West Broadcasting*, the court held that a radio station failed to prove that it had a legitimate protectable interest in preventing its former "broadcast personality" from working for a competing radio station. The *Bell* court based its decision on the facts that the announcer changed her radio name, the format of her show and the time of her show (from evenings to mornings). The court stated that the radio station's argument that her "voice was 'very recognizable,' and her fans could 'go from one station to another'" was not evidence of customer relationships or influence. *Id.* at 937

³⁶ *See, e.g., Silvers, Asher, Sher & McLaren*, 16 S.W.3d at 344-45; *Willman v. Beheler*, 499 S.W.2d 770, 775 (Mo. 1993). *See also Washington County Memorial Hosp.*, 7 S.W.3d at 543-45 (enforcing non-compete against nurse practitioner).

³⁷ *Id.*

³⁸ *Healthcare Services*, 2005 WL 1759942, at * 4-6.

³⁹ *Id.* at *5.

⁴⁰ *Id.* at *6.

⁴¹ In addition, the court allowed the defendant employees to pursue claims against their former employer for tortious interference with business expectancy. *Id.* at *7. The court held that the former employer's belief that the covenants not to compete were enforceable "did not show an absence of justification" for its interference, despite the fact that the trial court had ruled in the former employer's favor. *Id.*

⁴² It is possible that, by the time this article is published, the Supreme Court will have issued its decision.

⁴³ *Schott v. Beussink*, 950 S.W.2d 621, 625 (Mo. App. E.D. 1997).

⁴⁴ *Id.* at 625. While non-compete agreements are generally enforceable against physicians and accountants, they are not enforceable against attorneys. *See White v. Medical Review Consultants*, 831 S.W.2d 662, 664-65 (Mo. App. W.D. 1992) (internal citations omitted).

⁴⁵ *Victoria's Secret Stores*, 157 S.W.3d at 261-62.

⁴⁶ *Id.*

business” for two years after his termination.⁴⁷ A “competing business” was specifically defined in the agreement to include “any . . . retail department store [or] specialty store . . . that sells goods or merchandise of the types sold in May’s . . . stores at retail to consumers” or, where Weikel’s duties would be substantially similar in his new job, “any business . . . that is in **material competition** with May. . . .”⁴⁸

The trial court held, and the Court of Appeals agreed, that the first part of the definition of a “competing business,” which merely required a finding that the same “types” of products were sold by each company, was “far broader than necessary to protect May from any unfair competitive advantage.”⁴⁹ Indeed, such a definition would prevent employment at “virtually every non-automotive or hardware retailer in the United States.”⁵⁰ Thus, the more specific definition, requiring material competition, was applied by the court.

The evidence at trial showed that, while both companies sold millions of dollars worth of intimate apparel, they sold those products to different groups of consumers. Moreover, May’s own market research and reports concerning competitors in intimate apparel did not mention Victoria’s Secret as a competitor. In addition, intimate apparel sales constitute only 3% of May’s total sales revenue, while intimate apparel sales is Victoria’s Secret’s core source of revenue.⁵¹ On these facts, the court held that May and Victoria’s Secret were not material competitors, rendering the non-compete agreement unenforceable with respect to Weikel’s employment as an executive

with Victoria’s Secret.

This case is but one illustration of the careful construction given to non-compete agreements by Missouri courts and the principle that non-compete agreements are only enforced to prevent *unfair* competition. Indeed, the fact that the agreement limited its applicability to material competition made it more difficult for the former employer to make a case that enforcement of the non-compete against the executive in that case would serve the purpose of protecting trade secrets in any material way.

D. Reasonable in Scope

In addition to an employer needing to show the existence of a protectable interest, the non-compete agreement must be reasonable both in duration and the geographic area covered by the non-compete. However, even in cases in which the time or geographic scope in the agreement is unreasonable, a Missouri court in its discretion may “blue pencil” (re-write) the relevant provisions of the agreement to make them reasonable in the eyes of the court rather than deny enforcement altogether. For example, in one case, a former executive and shareholder’s non-compete agreement was modified from 10 years to five years,⁵² and in another, the geographical restriction in a former president’s non-compete was reduced from a 200-mile radius from St. Louis to a 125-mile radius.⁵³

Again, the courts are concerned about protecting an employer from *unfair* competition by a former employee but do not want to impose unreasonable restrictions on the employee. The trial

court will look to the circumstances of each case to determine whether the restrictions in the non-compete are tailored to protect the legitimate interests of the employer. Thus, although a two-year restriction may be appropriate in one case, in another a one-year restriction may be appropriate because any confidential information involved in the case may become stale and of no use to the former employee (or his new employer) after one year.⁵⁴

Although Missouri courts may re-write agreements to make them reasonable, one recent decision failed to do so without comment as to why the blue pencil rule was not followed.⁵⁵ In *Systematic Business Servs., Inc. v. Bratten*, the Missouri Court of Appeals for the Western District invalidated a non-compete provision because it was unreasonable in geographic scope, while at the same time enforcing a provision prohibiting solicitation of customers.⁵⁶

III. DEFENSES TO THE ENFORCEMENT OF NON-COMPETES

As one would expect, the best defense in attacking the enforceability of a non-compete agreement is often the argument that the former employer does not have a legitimate protectable interest, namely, trade secrets or customer contacts. However, depending on the case, the defenses set forth below may also have merit.

A. Prior Material Breach

“[W]here an employer breaches an employment agreement, it is barred from seeking enforcement of a covenant not to compete.”⁵⁷ The underlying policy is

⁴⁷ *Id.* at 260.

⁴⁸ *Id.* at 258 (emphasis added).

⁴⁹ *Id.* at 261.

⁵⁰ *Id.*

⁵¹ *Id.* at 259.

⁵² *Superior Gearbox*, 869 S.W.2d at 248.

⁵³ *Orchard Container*, 601 S.W.2d at 303-04. Missouri appellate courts have enforced between 30- and 125-mile geographic restrictions (and, in some cases, even broader restrictions), as well as two- and three-year restrictions in duration. *Alltype Fire Protection Co. v. Mayfield*, 88 S.W.3d 120, 123-24 (Mo. App. E.D. 2002) (enforcing two-year restriction as reasonable) (citing *Osage Glass*, 693 S.W.2d at 75 (sustaining three-year restriction) and *AEE-EMF*, 906 S.W.2d at 724 (enforcing three-year restriction)); *Silvers, Asher, Sher, & McLaren*, 16 S.W.3d at 343 (upholding 75-mile, two-year restriction); *Mid-States Paint*, 746 S.W.2d at 617 (upholding 125-mile, two-year restriction).

⁵⁴ See, e.g., *Victoria’s Secret Stores*, 157 S.W.3d at 259, 263.

⁵⁵ *Systematic Business Servs., Inc. v. Bratten*, 162 S.W.3d 41, 49-51 (Mo. App. W.D. 2005).

⁵⁶ *Id.*

⁵⁷ See *Ozark Appraisal Service, Inc. v. Neal*, 67 S.W.3d 759, 764 (Mo. App. S.D. 2002) (citing *Luketich v. Goedecke, Wood & Co., Inc.*, 835 S.W.2d 504, 507 (Mo. App. E.D. 1992)).

obvious: “A party to a contract cannot seek to enforce its benefits where he is the first to violate its terms.”⁵⁸

A key issue with respect to this defense is often whether a prior breach of the agreement is material. The defense is most often raised when an employer is alleged to have unilaterally changed the terms and conditions of the employee’s employment, contrary to the terms of the parties’ employment or compensation agreement.⁵⁹ The materiality of any breach is usually a question of fact.⁶⁰

In *Ozark Appraisal Serv., Inc.*, the employee, an appraiser of real estate, had signed an employment agreement with her employer (an appraisal company) that included not only a restrictive covenant, but a provision allowing for her termination for “unprofessional” or “unscrupulous” behavior.⁶¹ A few years into the employment relationship, the employer attempted to institute an accounting system for which its appraisers would pay a monthly fee. The employee expressed her dislike of the accounting system and stated her intention to refuse to use or pay for it. Her employer responded that the last employee who objected to the system was fired and that the employee should accept the system “or else.”⁶² The employee then left her employer’s premises and never returned, considering herself to have been terminated by her employer, as she was unwilling to use or pay for the accounting system. She then began working in competition with her former employer.

Her former employer filed suit to enforce the non-compete agreement.

The trial court and Missouri appellate court held that the former employer committed a prior material breach of the agreement by terminating the employee’s employment for a reason not permitted under her employment agreement.⁶³ The employer’s demand and threat with respect to the new accounting system constituted a unilateral change in the terms and conditions of the employee’s employment, which meant that the former employer was the first to materially breach the parties’ agreement.⁶⁴

It should be noted that if an employer commits a prior material breach, but the employee does not complain for an extended time period, the employee risks waiving the employer’s breach. For example, if an employer were to change the compensation structure to the employee’s detriment, but the employee waited to complain until he was in litigation over his non-compete five years later, the court may find that the employee waived the breach and will enforce the non-compete against him.⁶⁵

B. Unclean Hands

There is a well-known adage that for one to seek equity, he must do equity. Stated another way, “[a] court of equity will not aid a party who resorts to unjust and unfair conduct.”⁶⁶ Thus, even where an employee cannot prove a prior material breach, he may still raise the defense of unclean hands.

C. Termination Without Cause

One of the first issues that counsel must often attempt to resolve in these cases is whether the employee’s employment was terminated with or without cause. The general rule in Missouri is that if the employer discharges an employee without cause, a court of equity will refuse to order injunctive relief to enforce the employee’s non-compete.⁶⁷ However, at least one court still enforced a non-solicitation of customers provision even though the former employee was discharged without good cause.⁶⁸ A defense based on an employee’s termination without cause is interrelated with the unclean hands defenses and finds its basis in the general principle, cited above, that for one to be entitled to equity, he must do equity.⁶⁹

What is cause? The case that provides the most detailed discussion of the definition of cause in the context of non-compete cases is *Superior Gear Box*. The *Superior Gear Box* court stated that insubordination (i.e. the failure of the employee to “obey the lawful and reasonable rules . . . and instructions of the employer”), “incompetence or negligence” may constitute cause for termination.⁷⁰

D. Lack of Consideration

A court will not enforce a non-compete clause if there is no consideration for it.⁷¹ However, Missouri courts have held that continued employment is a sufficient basis to support a finding of

⁵⁸ *Id.*

⁵⁹ *Id.* at 764-65 (citing *Ballesteros v. Johnson*, 812 S.W.2d 217, 222 (Mo. App. E.D. 1991)); *Luketich*, 835 S.W.2d at 507; *Smith-Scharff Paper Co., Inc. v. Blum*, 813 S.W.2d 27 (Mo. App. E.D. 1991); *Forms Mfg., Inc. v. Edwards*, 705 S.W.2d 67, 69 (Mo. App. E.D. 1985).

⁶⁰ *Ozark Appraisal Serv.*, 67 S.W.3d at 764-65; *Shelbina Veterinary Clinic v. Holthaus*, 892 S.W.2d 803, 805 (Mo. App. E. D. 1995) (citing *McKnight v. Midwest Eye Institute*, 799 S.W.2d 909, 915 (Mo. App. W.D. 1990)).

⁶¹ *Id.* at 762.

⁶² *Id.*

⁶³ *Id.* at 764-65.

⁶⁴ *Id.*

⁶⁵ *Forms Mfg.*, 705 S.W.2d at 70.

⁶⁶ *McKnight*, 799 S.W.2d at 917 (citing *Showe-Time Video Rentals, Inc. v. Douglas*, 727 S.W.2d 426, 430 (Mo. App. S.D. 1987)). See also *State ex rel. Leonard v. Sherry*, 137 S.W.3d 462, 471 n.8 (Mo. banc 2004) (“The chief remedial defenses to equitable claims are the unclean hands defenses and laches.”) (internal citations omitted).

⁶⁷ See *Property Tax Representatives v. Chatam*, 891 S.W.2d 153, 156 (Mo. App. W.D. 1995); *Superior Gearbox*, 869 S.W.2d at 244; *Showe-Time*, 727 S.W.2d at 431.

⁶⁸ *Property Tax Representatives*, 891 S.W.2d at 158.

⁶⁹ *Showe-Time*, 727 S.W.2d at 433-34.

⁷⁰ *Superior Gearbox*, 869 S.W.2d at 244 (stating also that “lying, stealing, repeated absence or lateness, destruction of company property, brawling and similar infractions” are grounds for discharge for cause). See also *Chatam*, 891 S.W.2d at 156.

⁷¹ *Nail Boutique, Inc. v. Church*, 758 S.W.2d 206, 209 (Mo. App. S.D. 1988).

consideration.⁷² Therefore, it is rare that this defense is successful.

E. Waiver

One of the defenses often raised to the enforcement of a non-compete agreement is that the former employer has not enforced the non-compete agreement in the past against other employees and has thus waived its enforceability. The success of this defense is fact specific. It will depend largely on the number of the past instances of failing to enforce the non-compete, how recent those instances are, and whether the other employees had the same type of job as the employee at issue.⁷³

Importantly, this defense is intertwined with the defense that the employer has no protectable interest in confidential information or customer relationships. A former employee will often argue that, since the employer has failed to enforce non-compete agreements against other employees with similar access to confidential information and similar customer contacts, the employer itself does not truly believe that it has protectable interests in its confidential information or customer contacts worthy of protection. In such cases, the employer will often try to explain to the court why the situations are distinguishable. In addition, the employer will often seek to have the court exclude evidence of the enforcement (or lack thereof) of other non-compete agreements so as to avoid a series of mini-trials on why enforcement was not pursued in each case.

Moreover, the employer's failure to enforce the non-compete against other employees does not necessarily mean it is unenforceable. In *Thompson v. Allain*,⁷⁴ the court held that the fact that the employer did not enforce the covenant as

to other employees did not amount to a waiver as to a different employee. The *Thompson* court stated that the employer may have had good reasons for not objecting to having former employees compete with it in certain circumstances.

IV. ASSIGNABILITY OF NON-COMPETES

In a business world in which corporate mergers and the sales of businesses are very common, an issue of ever-increasing relevance is the ability of the new entity or employer to enforce non-compete agreements originally entered into between an employee and the original (or old) employer. Indeed, it goes without saying that a non-competition agreement is a valuable asset of a business that is likewise viewed as a valuable asset to a prospective business purchaser or candidate for merger. What happens to the non-compete agreement when there is a change in control or ownership of the business? Can the new entity or owner enforce the agreement?

A. Assignments in General

Under Missouri law, until recently, it was sufficient to state that because an employment contract is viewed as a "personal services" contract, it can only be assigned with the consent of the employee.⁷⁵ Based on this, it has been common practice for counsel for employers to include clauses in non-compete agreements in which the employee consents to any future assignment of the agreement. However, a recent decision of the Missouri Court of Appeals for the Southern District appears to have created a more stringent standard for the assignment of a non-compete agreement.

In *Roeder v. Ferrell-Duncan Clinic,*

Inc., the court held that "the assignment of a personal services contract [e.g., a non-compete agreement], by either the employer or employee, is void and unenforceable unless the other party consents at the time the assignment occurs."⁷⁶ In that case, the physicians in a medical practice had signed an employment agreement containing a restrictive covenant with their employer, Ferrell-Duncan (the medical practice). Ferrell-Duncan later entered into an arrangement with Cox Medical Centers, a large healthcare entity, whereby the physicians employed by Ferrell-Duncan would become joint employees of both Ferrell-Duncan and Cox so that the physicians of Ferrell-Duncan would be covered under Cox's self-funded or self-insured malpractice plan.⁷⁷ The net financial savings to Ferrell-Duncan as a result of the arrangement would be substantial. The plaintiff-physician, Dr. Roeder, objected to the joint employment from the outset and even voted against it when given the opportunity.⁷⁸ It was under these circumstances that the Court of Appeals stated the need for "contemporaneous consent" for an assignment of a non-compete to be effective.⁷⁹

B. "Assignment" in the Case of a Statutory Merger

However, non-compete agreements are generally enforceable in the case of a statutory merger or stock sale. Indeed, in the case of a statutory merger, the new entity or employer is the successor to the rights and liabilities of the original employer, and notwithstanding the law of assignments, the non-compete agreement remains in full force and effect after the merger. The prevailing Missouri law provides that a merger does not constitute

⁷² *Computer Sales Int'l, Inc. v. Collins*, 723 S.W.2d 450, 452 (Mo. App. E.D. 1986) (citing *Reed, Roberts Assocs., Inc. v. Bailenson*, 537 S.W.2d 238, 241 (Mo. App. E. D. 1976)).

⁷³ See, e.g., *Emerson Electric*, 418 F.3d at 845.

⁷⁴ 377 S.W.2d 465, 468 (Mo. App. W.D. 1964).

⁷⁵ *Alexander & Alexander, Inc. v. Koelz*, 722 S.W.2d 311, 312-13 (Mo. App. E.D. 1986) (citing *Allredge v. Twenty-Five Thirty-Two Broad Corp.*, 509 S.W.2d 744, 749 (Mo. App. W.D. 1974)).

⁷⁶ 155 S.W.3d 76, 86 (Mo. App. S.D. 2005).

⁷⁷ *Id.* at 86.

⁷⁸ The plaintiff-physician filed suit against Ferrell-Duncan for breach of his employment contract and for a declaratory judgment that the non-compete provisions in his agreement were unenforceable because of the impermissible assignment made by Ferrell-Duncan. *Id.* at 83-84.

⁷⁹ *Id.*

an impermissible assignment of a non-compete agreement and does not invalidate the agreement. As stated in *Alexander & Alexander v. Koelz*, “a change in the form in which the employer does business such as [a statutory] merger . . . while involving a formal transfer from one entity to another, should not be seen as creating an assignment in violation of the rule against the assignment of personal service contracts.”⁸⁰ As the court further explained:

Just as the initial acquisition of one company by another by the purchase of stock would not work a change in the business, neither would the merger, a mere change in the form of ownership . . . work such a change in the business. As no assignment could occur in the former, no prohibited “assignment” would occur in the latter.⁸¹

In other words, a corporate merger or the sale of stock should generally not be an impediment to the enforcement of a non-compete agreement by an entity under new ownership or by the entity surviving the merger.

V. THE NEW EMPLOYER’S EXPOSURE

The former employer often files suit against its former employee and the new employer. There are a number of strategic considerations concerning whether the new employer should be sued at the outset of the litigation, added at a later time or sued at all. Those strategic considerations vary on a case by case basis.⁸² However, there are a number of theories of recovery to which the new employer may be exposed, including civil conspiracy, tortious interference with a contract or business expectancy, unfair competition or head start and misappropriation of trade secrets under the Missouri Uniform Trade Secrets Act.⁸³

In addition to being exposed for damages for the lost profits of the former employer’s customers diverted in violation of a non-compete agreement, the new employer may also be liable for the attorneys’ fees incurred by the former employer to enforce the non-compete. “[W]here one tortiously induces another to breach a contract, it stands to reason that the harmed party may, in an action against the tortfeasor, recover attorneys’ fees incurred in prosecuting an action for

damages or specific performance against the breaching party.”⁸⁴ In other words, if the new employer did not interfere, there would not have been litigation between the former employer and employee. This is known as the “collateral litigation” doctrine, which is an exception to the general rule that attorneys’ fees are only recoverable in Missouri when provided for by a contract or statute.⁸⁵

When a new employer is considering hiring someone who has a covenant not-to-compete, consideration should be given to the new employer’s exposure in hiring the employee, particularly if the goal is to have the employee solicit customers of the former employer.

VI. ANTI-RAIDING PROVISIONS

It is not uncommon for an employer trying to protect itself from unfair competition to ask its employees to sign an anti-raiding agreement. Such an agreement prohibits a former employee for a specified period of time, such as a year, from soliciting or hiring away other employees of the former employer to work for a competitor.

In 2000, the Missouri Court of Appeals ruled that such agreements were not

⁸⁰ *Alexander & Alexander*, 722 S.W.2d at 313.

⁸¹ *Id.* (citing *Segal v. Greater Valley Terminal Corp.*, 199 A.2d 48, 50 (N.J. Super. Ct. App. Div. 1964); *Dodier Realty & Inv. Co. v. St. Louis Nat’l Baseball Club*, 238 S.W.2d 321, 325, n.4 (Mo. banc 1951)). See also *Corporate Express Office Products, Inc. v. Phillips*, 847 So.2d 406, 413-15 (Fla. 2003). In *Corporate Express*, the Florida Supreme Court provided even more cogent reasoning for the enforceability of non-competes after a corporate merger:

[T]he surviving corporation in a merger assumes the right to enforce a noncompete agreement entered into with an employee of the merged corporation by operation of law, and no assignment is necessary. This is because in a merger, the two corporations in essence unite into a single corporate existence. Accordingly, based on fundamental principles of commercial transactions and the applicable statutes, we hold that, in contrast to an asset purchase, neither a 100 percent purchase of corporate stock nor a corporate merger affects the enforceability of a noncompete agreement. . . . This holding also ‘conforms with the policy of preserving the sanctity of contract and providing uniformity and certainty in commercial transactions.’

The court went on to reject the notion that a purported change in culture and mode of operation at the new entity somehow invalidates a non-compete agreement: Reliance on changes in corporate culture and mode of operation as a measure of whether an employer has changed identity and therefore must obtain a consensual assignment of a noncompete agreement would inject unnecessary uncertainty into corporate transactions. Changes in corporate culture occur frequently, often in response to market forces and without a corresponding change in corporate structure. As long as the other prerequisites to the validity of a noncompete agreement are met, neither a 100 percent stock purchase nor a merger affects the enforceability of the agreement. (*Id.*)

⁸² The Eighth Circuit Court of Appeals recently held that, in the case before it, the former employer was barred from suing the new employer in an action subsequent to the action in which the non-compete agreement was enforced. See *Kforce, Inc. v. Surrex Solutions Corp.*, — F.3d —, 2006 WL 300537 (8th Cir. 2006). The court held that the Missouri “doctrine prohibiting double recovery” barred the later action against the new employer for tortious interference with contract, among other claims. *Id.* at *1-3.

⁸³ See, e.g., *Inauen Packaging Equip. Corp. v. Integrated Indus. Serv., Inc.*, 970 S.W.2d 360, 370 (Mo. App. W.D. 1998) (unfair head start); *Schott v. Beussink*, 950 S.W.2d 621, 627-29 (Mo. App. E.D. 1997) (civil conspiracy, tortious interference); *Superior Gearbox*, 869 S.W.2d at 250-51 (unfair head start); *Chatam*, 891 S.W.2d at 158 (citing *Mills v. Murray*, 472 S.W.2d 6, 12-13 (Mo. App. W.D. 1971) (civil conspiracy)). See also §§ 417.450, et seq., RSMo Supp. 2005 (misappropriation of trade secrets).

⁸⁴ *Phil Crowley Steel Corp. v. Sharon Steel Corp.*, 536 F. Supp. 429, 431 (E.D. Mo. 1982), *aff’d*, 702 F.2d 719 (8th Cir. 1983). See also *Nepera Chemical, Inc. v. Sea-Land Service, Inc.*, 794 F.2d 688, 696-97 (D.C. Cir. 1986) (citing *Phil Crowley Steel*, 702 F.2d at 721, favorably); *Johnson v. Mercantile Trust Co. Nat’l Ass’n*, 510 S.W.2d 33, 40 (Mo. 1974) (“Where . . . the natural and proximate result of a wrong or breach of duty is to involve the wronged party in collateral litigation, reasonable attorneys’ fees necessarily and in good faith incurred in protecting himself from the injurious consequences thereof are proper items of damages.”); *Ohlendorf v. Feinstein*, 697 S.W.2d 553, 556-57 (Mo. App. E.D. 1985) (“Collateral litigation occurs when a person breaches a contract causing one of the other contracting parties to sue or be sued by an outside third party.”); *Forsythe v. Starnes*, 554 S.W.2d 100, 111 (Mo. App. E.D. 1977) (attorneys’ fees recoverable “when they are incurred because of involvement in collateral litigation”).

⁸⁵ *Phil Crowley*, 702 F.2d at 721; 536 F. Supp. at 431.

enforceable in Missouri.⁸⁶ However, in response, the Missouri legislature passed a statute making such agreements generally enforceable, especially if they last no more than one year after termination of employment and do not cover secretarial or clerical employees.⁸⁷

It is important to recognize that agreements restricting a former employee's ability to recruit employees from his former employer stand on different footing than a restriction on competitive employment. Such a non-solicitation provision in a covenant not-to-compete may well be enforceable, even if the termination is without cause, and even though the non-compete provision may itself be unenforceable.⁸⁸

VII. OBTAINING A TRO OR PRELIMINARY INJUNCTION TO PREVENT UNFAIR COMPETITION

In determining whether to issue a TRO or preliminary injunction, in the non-compete context or otherwise, Missouri courts consider "(1) the probability of . . . success on the merits" of the underlying claim; (2) whether without the entry of a TRO or preliminary injunction the movant will suffer irreparable harm; (3) whether the harm to be suffered by the movant, in the absence of such relief, is greater than that which will be inflicted on other interested parties; and (4) whether public interest will be served by the injunction.⁸⁹ It is critical that the party seeking preliminary injunctive relief adequately and specifically allege in its petition and/or motion the protectable interests at stake for the former employer and the immediate, irreparable harm that will be suffered without preliminary injunctive relief.

VIII. PREEMPTIVE STRIKE: THE DECLARATORY JUDGMENT ACTION

It is a common scenario for an employer to threaten an employee or former employee with litigation should he attempt to compete in apparent violation of his non-compete agreement. Oftentimes, the employee being threatened receives legal counsel that the non-compete is unenforceable for one or more reasons (*e.g.*, the lack of a protectable interest, the prior material breach of the employer, etc.). In such cases, the former employee can, in effect, exercise some control over the course of the dispute and preemptively file a declaratory judgment action seeking a court order that the non-compete agreement is unenforceable.⁹⁰

Filing a declaratory judgment action may achieve several objectives. For example, there are instances in which a former employer threatens litigation over a non-compete that is not likely to be enforced, but the former employer nevertheless takes an unacceptable position in negotiations over the employee's post-employment activities. In such a case, the filing of a declaratory judgment action forces the hand of the former employer, who is then forced to decide between a settlement and a potentially adverse court decision holding its non-compete agreement unenforceable (which could lead to much greater damage to the employer). Finally, and importantly, filing the declaratory judgment action gives the former employee control over the selection of the forum and puts the employee in the position of being the plaintiff rather than a defendant.

Once a declaratory judgment action is filed, it is often the case that the former employer files a counterclaim for breach of the non-compete agreement and a motion for TRO to enforce the agreement. The mechanism of the motion for TRO may allow the former employer to gain control of the litigation to some extent.

IX. MISSOURI COMPUTER TAMPERING ACT

In cases involving stolen documents or computer data, a former employer may have a claim for damages against the former employee and the new employer



Court Bonds

Anytime...
...Anywhere

www.onlinecourtbonds.com
877.553.6376

THE BAR PLAN
SURETY AND FIDELITY COMPANY

⁸⁶ *Schmersahl, Treloar & Co., P.C. v. McHugh*, 28 S.W.3d 345, 348-51 (Mo. App. E.D. 2000), *overturned, in part*, MO. ANN. STAT. § 431.202 (West 2004).

⁸⁷ Section 431.202, RSMo Supp. 2005.

⁸⁸ *Chatam*, 891 S.W.2d at 158.

⁸⁹ *Emerson Electric*, 418 F.3d at 844 (citing *Dataphase Sys., Inc. v. CL Sys., Inc.*, 640 F.2d 109, 114 (8th Cir. 1981)). See also *State v. Gabbert*, 925 S.W.2d 838, 839 (Mo. banc 1996) (citing *Pottgen v. Missouri State High School Activities Ass'n*, 40 F.3d 926, 928 (8th Cir. 1994)); Mo. R. Civ. P. 92.02(a)(1) ("The court shall not grant a temporary restraining order unless the party seeking relief demonstrates that immediate and irreparable injury, loss, or damage will result in the absence of relief.") ("There is relatively little Missouri case law concerning the elements required to obtain a preliminary injunction . . ." because preliminary injunctions "are interlocutory and generally not appealable.") *Gabbert*, 925 S.W.2d at 839. See also *State ex rel. Myers Memorial v. Carthage*, 951 S.W.2d 347, 351 (Mo. App. S.D. 1997).

⁹⁰ Mo. R. Civ. P. 87.

⁹¹ Section 537.525.1, RSMo Supp. 2005.

⁹² Section 537.525.2, RSMo Supp. 2005.

under what is primarily a criminal statute, the Missouri Computer Tampering Act (the "MCTA"). In brief, the MCTA provides that, "[i]n addition to any other civil remedy available, the owner or lessee of the computer system, computer network, computer program, computer service or data may bring a civil action against any person who violates [certain provisions of the MCTA], for compensatory damages, including any expenditures reasonably and necessarily incurred by the owner or lessee to verify that a computer system, computer network, computer program, computer service, or data was not altered, damaged, or deleted by the access."⁹¹ Under the civil remedy provisions of MCTA, a "prevailing plaintiff" may also recover its attorneys' fees.⁹²

There are several sections and subsections of the MCTA under which a violation could trigger the civil remedy provision. Relevant to cases involving a former employee taking computer data, one such section provides that "[a] person commits the crime of tampering with computer data if he knowingly and without authorization or without reasonable grounds to believe that he has such authorization . . . [d]iscloses or takes data, programs, or supporting documentation, residing or existing internal or external to a computer, computer system . . . or . . . [r]eceives, retains, uses or discloses any data he knows or believes was obtained in violation of this subsection."⁹³ "A person [also] commits the crime of tampering

. . . if he knowingly and without authorization or without reasonable grounds to believe that he has such authorization . . . [a]ccesses or causes to be accessed any computer, computer system or computer network."⁹⁴ Thus, it would seem that a cause of action would lie under the MCTA even if the information in question is not confidential and does not constitute a trade secret under the UTSA.⁹⁵

The importance and value of the MCTA to employers seeking to protect themselves against unfair competition cannot be overstated in an age in which communications, customer data and other valuable company information are, more often than not, maintained and transmitted electronically. Thus, not only should counsel for employers be aware of the statute as a potential theory of recovery, but counsel for employees should also be mindful of the MCTA when giving the green light to a client to take information from his or her employer based on an analysis that the information does not constitute a trade secret of the employer. Again, the MCTA appears to protect data and other information irrespective of whether the information constitutes a trade secret.⁹⁶

X. DUTY OF LOYALTY

As the Supreme Court of Missouri recently confirmed, an employee not subject to a non-compete agreement still owes his employer a duty of loyalty.⁹⁷ The "most common manifestation of the duty of loyalty . . . is that an employee has a

duty not to compete with his or her employer [during his employment] concerning the subject matter of the employment."⁹⁸ Nevertheless, employees "may plan and prepare for their competing enterprises while still employed."⁹⁹ A breach of the duty of loyalty "arises when the employee goes beyond the mere planning and preparation and actually engages in direct competition, which, by definition, is to gain advantage over a competitor."¹⁰⁰

XI. CONCLUSION

In a jurisdiction such as Missouri where non-competes are often enforceable, there will undoubtedly continue to be litigation over such agreements. The basic principle to remember is that Missouri courts will enforce a non-compete agreement only to protect a former employer from *unfair* competition. Without the existence of the protectable interests of customer relationships or trade secrets, the non-compete will not be enforced. If the agreement is unreasonably broad in geographic scope or duration, the court in its discretion may "blue pencil" the agreement to render it reasonable under the circumstances.

Counsel must also be mindful that, even without a non-compete agreement, a cause of action may still lie to prevent unfair competition under other theories, including trade secret misappropriation under the UTSA, breach of the duty of loyalty and violations of the Missouri Computer Tampering Act.

⁹³ Section 569.095, RSMo Supp. 2005. It is also worth noting that, when first enacted in 1982, the MCTA explicitly only protected information that qualified as a trade secret, but was amended in 1987 to remove any requirement that the protected information be a trade secret. The information protected must now merely qualify as "data, programs, or supporting documentation, residing or existing internal or external to a computer [or] computer system." *Id.*

⁹⁴ Section 569.099, RSMo Supp. 2005.

⁹⁵ There is a paucity of case law interpreting the MCTA and its civil remedy provision. However, at least one federal district court allowed a civil remedy claim under the statute to survive the defendant's motion for summary judgment. *See Chrysler Corp. v. Carey*, 5 F. Supp.2d 1023, 1035-36 (E.D. Mo. 1998).

⁹⁶ The MCTA may also raise the stakes when it comes to electronic discovery and fact investigation involving the forensic analysis of the hard-drive on the computer used by the departed employee. Electronic discovery and investigation often reveals extremely damaging evidence against the former employee. Simply discovering that the former employee downloaded, printed or e-mailed valuable company information, depending on other factors, will usually be enough to assert a claim under the MCTA.

⁹⁷ *See, e.g., Scanwell Freight Express STL, Inc. v. Chan*, 162 S.W.3d 477, 479 (Mo. 2005).

⁹⁸ *Id.* (citing RESTATEMENT (2D) AGENCY, § 393 (1958)).

⁹⁹ *Id.*

¹⁰⁰ *Id.*