CASE 16.3

*Garon Foods, Inc. v Montieth*
2013 WL 3338292 (S.D. Ill. 2013)

## The Holes in Selling Cheese



### FACTS

Sarah Montieth was an employee of Garon Foods from November 2011, until she voluntarily resigned in February 2013. Garon sells peppers to cheese manufacturers for use in making pepper jack cheese. Garon acts as a distributor for peppers it obtains from a supplier and then relabels and distributes to its pepper jack cheese manufacturing customers under Garon's name. During her time at Garon, she had access to a computer program listing the names of Garon's customers, and she was assigned to manage the accounts of a small number of customers (around five at any one time).

Prior to starting employment, Sarah signed a "Garon Trade Secrets Confidentiality Agreement" in which she agreed to hold Garon's trade secrets confidential and to refrain from using them for anything other than Garon's benefit. Under the Agreement, trade secrets included customer lists, customer products, customer pricing, data, designs, financial records, formula, packaging, procedures, processes, suppliers, vendors, and other confidential information. Garon further protected some of this information on a computer system with individual passwords and by hiding it on its computer server.

At the time of her resignation, Sarah signed another document in which she acknowledged the Agreement's nondisclosure provisions. Garon never asked Sarah to sign a covenant not to compete with Garon.

During Sarah's employment with Garon, she sent an e-mail with some of the foregoing confidential information to her personal e-mail account. She did this for the purpose of preparing for a meeting to address a customer complaint that had arisen while others at Garon were away on vacation. On one occasion, Sarah also sent a purchase order containing confidential information to a trucking company to facilitate an urgent transportation request. When Sarah resigned, she was escorted from Garon's property and took no documents with her. She did retain in her memory the names of purchasing agents of certain Garon customers and general knowledge of the industry, such as "ballpark" pricing arrangements. Any specific pricing details Sarah retained in her memory are likely to be obsolete within a year or less due to the fluctuation of product prices.

After Sarah's resignation, she began working as an independent contractor for the Supplier of peppers to Garon. This was the Supplier's first attempt to market its product directly to cheese manufacturers.

No credible evidence shows Sarah gave the Supplier any of Garon's confidential information or trade secrets. Sarah sent mass e-mails to the purchasing agents of the companies on a list of pepper jack cheese manufacturers. She had not obtained the manufacturer list from Garon but derived it on her own through Internet searches. She had remembered some of the purchasing agents' names from her work at Garon but had obtained others, along with contact information, through telephone calls to the manufacturers. She did not specifically target any of Garon's customers with her e-mail solicitations, but she did not avoid them either. However, some of the mass e-mails contained references from which the manufacturer could easily conclude that the Supplier was Garon's source of the products Garon sold under its own name. For example, one mass e-mail offered to sell the Supplier's product to manufacturers using standard packaging methods (pails, drums, and totes) "at a significant cost savings and with shorter lead times" than the manufacturer could get through a distributor. The e-mail further contained a specification sheet for a product that this customer had purchased from Garon.

Despite receiving a cease-and-desist letter from Garon's counsel, Sarah continues to solicit business for the Supplier. Sarah has not brought any new customers to the Supplier since her marketing efforts began, but Garon has lost one longtime customer who generated more than $200,000 of business a year. If the Supplier is able to draw customers away from Garon, Garon's reputation in the industry would suffer, and it would be nearly impossible to get its customers back. Additionally, since Sarah began working for the Supplier, the Supplier has increased the product prices it charges Garon, which Garon has been forced to pass along to its customers.

Garon filed suit alleging Sarah breached the Agreement by revealing confidential information and violated the Illinois Trade Secrets Act ("ITSA") by misappropriating Garon's trade secrets. Garon asked the Court to issue a preliminary injunction.

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**JUDICIAL OPINION**

GILBERT, District Judge.

The first theory under which Garon seeks relief for Sarah's alleged breach of the Agreement. Sarah argues that she did not breach the Agreement because she did not target Garon's customers or give any confidential information to the Supplier.

"Confidentiality agreements . . . are restrictive covenants and under Illinois law are reviewed with a suspicious eye." Specifically, restrictive covenants work in partial restraint of trade and courts must carefully assess their intent to insure they are not used to prevent competition *per se*.

It is likely that Garon can show Sarah revealed the confidential identity of the Supplier in violation of the Agreement. The identity of the Supplier as Garon's source of products is confidential information under the Agreement. Garon took pains to protect that information by hiding it from its cheese manufacturer customers. Any communication that identified, either directly or indirectly, the Supplier as Garon's supplier therefore likely breached the Agreement. For example, Garon was the only manufacturer who sold products in 43-pound pails, 450-pound drums and 1700-pound totes. Thus, the identification of these specific weights associated with the Supplier was sufficient to reveal the Supplier's identity to Garon's customers who had purchased products in those packages.

It is likely that Garon can show Sarah used confidential information about Garon's customers' past product purchases to market to some cheese manufacturers. For example, she attached to a solicitation e-mail a specification sheet for a product that a Garon customer had purchased from Garon in the past. The customer's needs and purchasing history, as well as the terms of Garon's sales to that customer, that Sarah retained in her memory are likely to be Garon's confidential information under the Agreement, so the Agreement would likely prohibit her from using that information for the Supplier's benefit.

[I]t is likely that Garon can prove Sarah breached the Agreement by revealing the Supplier's identity and using past customer purchasing needs and sales terms to solicit customers for the Supplier.

The second theory under which Garon seeks relief is under the ITSA for misappropriation of trade secrets.

Under the ITSA, a "trade secret" includes: Information, including but not limited to, technical or non-technical data, a formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers, that: (1) is sufficiently secret to derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality.

The Court finds for the reasons discussed above that Garon's trade secrets include the identity of the Supplier and the past customer purchasing needs and sales terms and that Sarah misappropriated those trade secrets by disclosing or using them in her solicitations. Garon is unlikely to be able to prove its customer list is a trade secret.

In the absence of a preliminary injunction, Sarah may be able to tempt some of Garon's customers to patronize the Supplier instead of Garon, although she had not done so as of the date of her testimony. If this happens with respect to more than a minimal number of customers, Garon will suffer irreparable damage to its business which may result in the end of its business and which cannot be remedied by money damages.

If the Court grants the requested injunction, Sarah will be extremely limited in her ability to earn a living soliciting cheese manufacturer customers, and the public will suffer harm by the loss of competition between pepper suppliers. However, if the Court does not grant an injunction, there is a risk Garon will lose business to the Supplier based on Sarah's use of some confidential information or trade secrets. In light of these factors, the Court believes it appropriate to grant an injunction limiting Sarah's solicitation of cheese manufacturers but not prohibiting them, Sarah will still be able to work in her new position without being prevented from attempting to earn a living, but the manner in which she conducts those solicitations must be circumscribed. The limitations described below will protect Garon's confidential information and trade secrets while still allowing the public the economic benefit of fair and increased competition between Garon and the Supplier.

Sarah is enjoined from soliciting business for the Supplier from any cheese manufacturer whose account she was assigned to manage during the twelve months before she stopped working for Garon. This injunction shall last for eight months following entry of this preliminary injunction. This preliminary injunction does not prevent Sarah from servicing any of these cheese manufacturers who independently become customers of the Supplier by means other than her solicitations.

Sarah is enjoined from soliciting business for the Supplier from any cheese manufacturer she knows is or was a Garon customer by mentioning or using any specific information in the solicitation about their past purchasing needs or sales terms. This restriction includes mentioning in the solicitation the specifications of the products she knows from her experience at Garon were sold to that cheese manufacturer by Garon.

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This preliminary injunction does not prevent Sarah from responding to a cheese manufacturer's request for products that it has purchased from Garon so long as the request for those products is initiated by the cheese manufacturer.

Sarah is enjoined from referring in her solicitations to (1) Garon or (2) any other information from which a cheese manufacturer is likely to draw the conclusion that the Supplier provides Garon with the products Garon sells under its name. This restriction includes, but is not limited to, mentioning in the solicitation the specific weights of products in conjunction with the method of packaging that were sold exclusively by Garon (e.g., 43-pound pails) and inviting the cheese manufacturer to compare the quality audit documentation of Garon and the Supplier.

This preliminary injunction does not prohibit Sarah from responding to a cheese manufacturer's request for products packaged in the specific weights and methods sold by Garon or for a list of the packaging weights and methods available from the Supplier, so long as the request is initiated by the cheese manufacturer.

**CASE QUESTIONS**

1. What kind of information does Sarah have that could harm Garon?
2. What type of business was Sarah attempting to create?
3. What restrictions does the court impose?

## Ethical Issues

Discuss what ethical issues you see in Sarah's actions.

## Consider . . . 16.5

Eric Rush (a.k.a. Eric Romero in the dance world) was a dance instructor at a Plano, Texas, Arthur Murray dance studio. Mr. Rush says he was fired, but the attorney for the Arthur Murray studio indicates he resigned. Under the terms of his employment contract, which included a noncompete clause, Mr. Rush was prohibited from teaching dance lessons within a 25-mile radius of the Plano Arthur Murray studio. However, Mr. Rush created a Craigslist notice offering dance lessons and also contacted former students from Arthur Murray to offer dance lessons. He also taught a cha-cha lesson at Tango and Cha-Cha's Dance Studio in Dallas (to the tune of "I Left My Heart in San Francisco").

A Texas judge ordered Mr. Rush to take down the Craigslist notices and stop teaching dance through the end of 2009 within the 25-mile radius. Mr. Rush was also ordered to spend 30 days in jail for contempt of court, which consisted of his ongoing refusals to comply with the court's orders for his violations of the noncompete clause. The jail sentence represents the latest in a 10-month legal battle between Rush and his former employer. Rush's lawyer called the sentence excessive and said that the judge was "killing a fly with a bazooka."

As for Mr. Rush, he is dismayed at his clipped wings, er, silenced taps. He says that the noncompete clause "is like asking a doctor not to practice medicine."[4] He also says that if he did stop dancing "it would be, like, blasphemous."[5] Rush also