THE STATE OF SOUTH CAROLINA
In the Supreme Court

APPEAL FROM CHARLESTON COUNTY
Court of Common Pleas

The Honorable Roger M. Young, Circuit Court Judge

Opinion No. 5471
Heard November 17, 2016 – Filed March 1, 2017
Petition for Rehearing Denied May 26, 2017

Joshua Fay,.....Respondent,

v.

Total Quality Logistics, LLC, ... Petitioner,

PETITION FOR A WRIT OF CERTIORARI

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TABLE OF AUTHORITIES

Cases:

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CERTIFICATE OF COUNSEL

Counsel for Petitioner certifies that the Petition for Rehearing was made and finally ruled on by Court of Appeals on May 26, 2017.

QUESTION PRESENTED

1. Did the Court of Appeals err in refusing to apply Ohio law to the confidentiality agreement at issue despite a valid and unambiguous choice of law provision?

2. Did the Court of Appeals err in determining that the standards by which to judge the enforceability of a non-compete provision also should be used to interpret a distinct confidentiality provision?

3. Did the Court of Appeals' decision emasculate the South Carolina Trade Secrets Act in its holding that the confidentiality provision was required to meet the standards of a covenant not to compete?

STATEMENT OF THE CASE

This Petition for Writ of Certiorari is sought to determine whether an agreement must first be considered pursuant to a choice of governing law provision and whether a confidentiality provision is required to include a time or geographic restriction pursuant to S.C. Code Ann. Section 39-3-30. The decision of the Court of Appeals is in conflict with this Court's prior decisions and interpretation of the South Carolina Code. See S.C. R. App. P. 242(b)(3) (noting that this Court has discretion to give consideration to cases in which the decision of the Court of Appeals is in conflict with a prior decision of the Supreme Court).

Petitioner Total Quality Logistics, LLC (hereinafter "TQL") is an Ohio limited liability company providing logistics services, including third-party logistics services, motor freight brokerage services, and supply chain management services throughout the continental United States, Mexico, and Canada. Respondent Joshua Fay (hereinafter "Fay") was previously employed by TQL as a Logistics Sales Account Executive. (R. at 80). Following his termination on June 17, 2013, Fay immediately began competing with TQL unfairly and in violation of his Employee Non-Compete, Confidentiality, and Non-Solicitation Agreement (the "Agreement") by providing to a TQL customer, the Brandt Companies ("Brandt"), the same services that he had provided to Brandt while employed by TQL. (R. at 80). In fact, Fay established and directly competed through his own brokerage company, JF Progressions, following his employment with TQL. (R. at 255-56; 262).

Fay brought this action on September 23, 2013, alleging violations of the Fair Labor Standards Act and seeking a declaratory judgment that the Agreement is invalid and unenforceable. Fay amended his Complaint on November 12, 2013, to add a claim for

interference with contract, after Brandt ceased its dealings with him as a result of litigation TQL filed against Brandt to enforce its rights under the Agreement. (R. at 17-22).

The parties filed cross-motions for summary judgment. Fay filed his motion for judgment on the pleadings, or for summary judgment in the alternative, to ask the lower court to rule that his Agreement is unenforceable. Fay also asked the court—prematurely, without the benefit of any discovery—to rule against TQL on its counterclaim for conversion and misappropriation of confidential information and trade secrets, arguing that he had not in fact violated the Agreement.

By order dated April 14, 2014, the circuit court correctly held that the Agreement is enforceable under Ohio law and could be enforced in South Carolina because it does not violate the public policy of South Carolina. (R. at 4-16). The court also correctly denied Fay's motion for summary judgment on TQL's claims for breaches of contract, and in so doing, implicitly found that he had violated his Agreement. However, in response to Fay's motion for partial reconsideration, by order dated August 4, 2014, the lower court revoked its finding that Fay had breached the Agreement, upheld its ruling that the Agreement is enforceable, and certified the issue for immediate appeal. (R. at 1-3).

On March 1, 2017, the South Carolina Court of Appeals issued an opinion reversing the trial court's order finding the Agreement is enforceable. Judge John D. Geathers concurred in a separate opinion, stating he believed the court must first consider the agreement under Ohio law based on an enforceable choice of law provision. The Court of Appeals denied TQL's Petition for Rehearing on May 26, 2017.

ARGUMENT

1. THE COURT OF APPEALS ERRED IN ITS FAILURE TO APPLY OHIO LAW TO THE AGREEMENT BASED ON A VALID CHOICE OF LAW PROVISION WHEN THE AGREEMENT WOULD BE VALID UNDER OHIO LAW.

As a threshold matter, this Agreement must first be considered under Ohio law based on the valid choice of law provision. "Choice of law clauses are generally honored in South Carolina." Team IA, Inc. v. Lucas, 395 S.C. 237, 248, 717 S.E.2d 103, 108 (Ct. App. 2011). The majority of the Court of Appeals failed to give effect to the enforceable choice of law provision, under which the Agreement is valid.

The Agreement includes a choice of law provision which states as follows:

> 11. Governing Law. This Agreement is made and entered into in the State of Ohio. This Agreement shall be interpreted and enforced under the laws of the State of Ohio, without regard to its conflict of law principles.

(R. 99).

"Terms in a non-compete agreement may be construed according to the law of another state." Stonhard, Inc. v. Carolina Flooring Specialists, Inc., 366 S.C. 156, 159, 621 S.E.2d 352, 353 (citing Standard Register Co. v. Kerrigan, 238 S.C. 54, 70-71, 119 S.E.2d 533, 541-41 (1961)). Assuming the resulting agreement is valid as a matter of law and comports with public policy in South Carolina, our courts will enforce it. Id. The restrictive covenants in the Agreement are valid under Ohio law, and they comport fully with South Carolina's public policy, which generally requires the enforcement of contracts entered into freely. Oxman v. Profitt, 241 S.C. 28, 126 S.E.2d 852 (1962) (applying this principle to a covenant not to compete). Under Ohio law, the provisions in the Agreement are no greater than that which is required for TQL; they do not impose undue hardship on Fay; and they are not injurious to the public. Raimonde v. Van Vlerah, 42 Ohio St.2d 21, 325 N.E.2d 544, 547 (1975).

Moreover, Ohio "permits its courts to enforce covenants not to use or disclose confidential information . . . ." Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp., 401 F. Supp. 1102, 1114 (E.D. Mich. 1975). There is no Ohio case law that permits a court to construe an explicit confidentiality provision as a non-competition provision. Further, Ohio courts have granted requests for preliminary injunctions or temporary restraining orders based on a confidentiality provision without a temporal or geographic limitation. See, e.g., Marlite, Inc. v. America Canas, Case No. 5:09CV1401 (N.D. Ohio. July 22, 2009); Jeffrey A. Dangelo v. Total Quality Logistics, Case No. 1:09cv512 (S.D. Ohio 2009); Total Quality Logistics, LLC v. Michael Siano, Case No. 2010-CV-2731 (Court of Common Pleas, Clermont County, Ohio Jan. 4, 2011).

The majority opinion's failure to consider the Agreement under Ohio law was in error. In his concurring opinion, Judge Geathers states that the Court must first examine the Agreement under Ohio law because of the valid choice of law provision. Many employment agreements, confidentiality agreements, and other contracts utilize choice of law provisions, and these are generally considered valid under South Carolina law. The majority's failure to consider the choice of law provision calls into question contractual agreements' respective choice of law provisions, creating an issue of major public importance and concern. The concurring opinion demonstrates there is a question as to the proper manner by which a court is to examine and interpret choice of law provisions in contractual agreements.

Moreover, the Agreement is enforceable under the law of Ohio. During the course of his employment with TQL, Fay learned both confidential and non-confidential information regarding the transportation industry. Fay is free to use learned knowledge based on any non-confidential information to work in a field of his choice. However, it is not unreasonable for

TQL to desire to continue to protect its trade secrets following Fay's employment with TQL, and this neither imposes a hardship on Fay nor is it injurious to the public. Additionally, Fay has not been unduly harmed or burdened by the requirements of the confidentiality provision. During the course of his employment with TQL, Fay learned a variety of general transportation concepts and may continue to work in this field without violating the Agreement. (R. 198-199). The Agreement only prohibits unfair competition and the use of TQL's confidential and trade secret information.

Before Fay was hired, he did not have access to any of the non-public information about TQL's customers or TQL's proprietary business methods. In fact, Fay had not even worked in the transportation or logistics industry prior to his employment with TQL. (R. 188). Nothing in the Agreement, particularly the provisions related to confidentiality, stifle Fay's skill and experience or restrict the general knowledge gained during his employment.

The Court of Appeals erred when it failed to apply Ohio law to the terms of the Agreement, and the Agreement is enforceable under Ohio law. By not examining the Agreement first under Ohio law, the Court of Appeals failed to consider the explicit, and enforceable, choice of law provision contained in the Agreement.

2. THE COURT OF APPEALS ERRED IN ITS APPLICATION OF THE STANDARDS BY WHICH TO JUDGE THE ENFORCEABILITY OF A NON-COMPETE PROVISION TO A CONFIDENTIALITY PROVISION.

The Court of Appeals erred in holding that the confidentiality provision at issue in the Agreement was so broad as to render it a non-compete clause.

The South Carolina Trade Secrets Act defines a "trade secret" as follows:

> (a) information including, but not limited to, a formula, pattern, compilation, program, device, method, technique, product, system, or process, design, prototype, procedure, or code that:
>
> > (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by the public or any other person who can obtain economic value from its disclosure or use, and
> >
> > (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
>
> (b) A trade secret may consist of a simple fact, item, or procedure, or a series or sequence of items or procedures which, although individually could be perceived as relatively minor or simple, collectively can make a substantial difference in the efficiency of a process or the production of a product, or may be the basis of a marketing or commercial strategy. The collective effect of the items and procedures must be considered in any analysis of whether a trade secret exists and not the general knowledge of each individual item or procedure.

S.C. Code Ann. § 39-8-20(5).

Additionally, this Act does not require a confidentiality provision to include a temporal or geographic limitation. It states as follows:

> A contractual duty not to disclose or divulge a trade secret, to maintain the secrecy of a trade secret, or to limit the use of a trade secret must not be considered void or unenforceable or against public policy for lack of a durational or geographic limitation.

S.C. Code Ann. § 39-8-30(D).

The South Carolina General Assembly adopted this language in 1997 in response to the decision of the Court of Appeals in Carolina Chem. Equip. Co. v. Muckenfuss, 322 S.C. 289, 471 S.E.2d 721 (Ct. App. 1996), a case on which the Court of Appeals and Fay mistakenly rely. However, the amended statutory language, which makes clear that neither a temporal nor a geographic limit is required for a confidentiality provision to be enforceable, controls the consideration of the terms of the Agreement.

"It is widely recognized that an employer may 'restrain a former employee from disclosing and using confidential information which was developed as a result of the employer's initiative and investment and which the employee learned as a result of the employment relationship.'" Milliken & Co. v. Morin, 399 S.C. 23, 37, 731 S.E.2d 288, 295 (2012) (quoting GTI Corp. v. Calhoon, 309 F. Supp. 762, 768 (S.D. Ohio 1969)). In Morin, this Court held that an employer can have legitimate business interests it protects through the use of a confidentiality agreement, and that a confidentiality agreement is not required to be limited by time or geography. Id. at 38, 731 S.E.2d at 296. Further, if a terminated employee is able to use general skills and knowledge in a new line of employment, the confidentiality provision should not be considered to be harsh or oppressive. Id. The Court of Appeals decision is in direct contradiction of the language of Section 39-8-30. Section 39-8-30 explicitly states that confidentiality provisions are not required to have either a geographic or temporal limitation. The Court of Appeals decision focuses on the confidentiality provision's lack of any geographic or temporal limitations in its decision that the Agreement is unenforceable—this is simply in conflict with the language of the statute.

Following the amendment to S.C. Code Ann. Section 39-8-30, numerous businesses and employers updated their confidentiality provisions under the belief that these agreements would be enforceable in South Carolina without a time or geographic limit. Should the Court of Appeals' interpretation prevail, nearly all confidentiality and non-disclosure agreements would become subject to the same requirements as non-compete provisions regardless of the intention of the parties or the nature of the information. [1] For example, the confidentiality of trade secret information, such as product receipts or proprietary methods of conducting business, would be

[1] In fact, the Agreement contains a separate, non-compete provision that contains a clear one year limitation. (R. at 97).

incapable of protection in perpetuity, which is not the intent of the statute passed by the South Carolina General Assembly. If the Court of Appeals' erroneous interpretation is permitted to stand, all of these confidentiality provisions will be required to be rewritten or will be challenged by disgruntled employees who desire to work for competitors or harm the business of a former employer. For example, an individual would be able to accept employment with a particular employer knowing he would be able to learn confidential information, then turn around and become a direct competitor with no penalty. This was clearly not the intent of the General Assembly. In fact, the General Assembly moved quickly in response to the decision in Muckenfuss, specifically "codif[ying] the common law distinction between a trade secret agreement and a covenant not to compete." South Carolina Legislative Update, 1997 Reg. Sess. 4/29/1997. The addition of subsection (D) to S.C. Code Ann. Section 39-8-30 became effective on May 21, 1997, approximately one year after the decision in Muckenfuss, an unequivocal statement by the General Assembly of its desire to allow for the continuous protection of confidential information without restriction as to a time period. The ability of employers and business entities to protect their proprietary information following the termination of an employee is an essential issue, and the manner in which such provisions are construed by courts has an enormous impact on the public.

Further, the definition of confidential information provided in the Agreement is limited to that which encompasses genuinely proprietary information and concepts. (R. at 46). As conceded by Fay, Ms. Hillary Kotlarz, the Group Sales Manager in the Charleston, South Carolina location of TQL, described a comprehensive list of general transportation concepts, methods, and information Fay learned from TQL which Fay is permitted to use in the transportation industry. (R. at 198-200). These general concepts are not incorporated into the definition of confidential

information in the Agreement. The definition of confidential information focuses on TQL's proprietary concepts and methods to which Fay was exposed. As part of his training and employment, Fay had access to TQL's proprietary software system, which contained much of the information designed to be protected by the confidentiality provision, as well as marketing and business strategies for TQL's sales employees. (R. at 188). Prior to his employment with TQL, Fay had no knowledge of and did not understand TQL's proprietary methods to develop leads or how to "build" loads, nor did he know TQL's pricing, profitability, and margin information. (R. at 188). This is the type of information considered to be confidential under the Agreement.

The Court of Appeals erred in interpreting the Agreement's confidentiality and nondisclosure provision to be overbroad. Under South Carolina law, such a confidentiality provision must not "purport to preclude an employee from finding gainful employment in his chosen field." Vessel Medical, Inc. v. Elliott, No. 6:15-cv-00330-MGL, 2015 WL 5437173, at *4 (D.S.C. Sept. 15, 2015). At no point do these paragraphs contain restrictions so onerous that Fay could not find employment in the logistics and transportation field. The confidentiality provision of the Agreement is merely a reasonable restraint on Fay to prevent him from "disclosing and using confidential information which was developed as a result of [TQL's] initiative and investment." Morin, 399 S.C. at 37, 731 S.E.2d at 295 (quoting GTI Corp., 309 F. Supp. at 768)).

By broadly construing the confidentiality provision and narrowly construing the statute, the Court of Appeals mistakenly concluded that the confidentiality provision of the Agreement was so expansive that it qualified as a covenant not to compete. By explicitly including the statement that a contractual duty not to disclose a trade secret is not "void or unenforceable or against public policy for lack of a durational or geographical limitation", S.C. Code Ann. § 38-8-

30, the General Assembly has made clear its intent for the proprietary information of a business to be able to remain confidential following termination of employment. By reading the statute in such a limited manner, the Court of Appeals ignored the clear legislative intent and this Court's decision in Morin.

This Court's ruling in Morin makes clear that confidentiality provisions are not required to have a temporal or geographic limit. The provision at issue is not so broad to preclude all forms of employment in the transportation and logistics industries, but rather merely the use of the confidential and proprietary information of TQL. The Court of Appeals erroneously construed the confidentiality provision of the Agreement by considering its enforceability based on the standards applied to a non-compete provision, a clear contradiction of the statutory law and this Court's prior decisions.

CONCLUSION

For the reasons stated, Petitioner asks the Court to grant the petition for a writ of certiorari.

Respectfully Submitted,

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June 21, 2017

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S.C. SUPREME COURT

IN THE STATE OF SOUTH CAROLINA
In the Court of Appeals

APPEAL FROM CHARLESTON COUNTY
Court of Common Pleas

The Honorable Roger M. Young, Circuit Court Judge

Case No. 2013-CP-10-5579

Appellate Case No. 2014-001828

JOSHUA FAY.....Respondent,

vs.

TOTAL QUALITY LOGISTICS, LLC.....Appellant.

PROOF OF SERVICE

The undersigned of the law offices of Smith Moore Leatherwood LLP, attorneys for Appellant, does hereby certify that service of the Petition for Writ of Certiorari and Appendix was made on counsel for Respondent, specified below, by sending a copy via US Postal Service, Priority Mail Express, and a copy of the Petition to the Clerk of the South Carolina Court of Appeals, with sufficient postage, on **June 21, 2017**, to the following address:

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