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"Inevitable Disclosure Doctrine: Hardly Inevitable in New York"
By Abraham Y. Skoff

10-02-09

The recent case of American Airlines v. Charles F. Imhof and Delta Airlines, Inc., 620 F.Supp.2d 574 (SDNY 2009) (Kaplan, J.), puts another nail in the coffin of the "inevitable disclosure doctrine" when used as a substitute for an employee noncompetition agreement, and keeps federal jurisprudence in line with New York's long standing hostility to the doctrine.

In *American*, the court refused to enjoin Charles F. Imhof, a long-time manager at American Airlines, from working in a similar capacity at Delta, even though Mr. Imhof admittedly e-mailed internal American Airlines documents to himself prior to resigning. American's invocation of the inevitable disclosure doctrine did not reduce its burden in establishing irreparable harm; the court characterized American's theory as "ephemeral," and found that American failed to show "specific confidential information," or "protectable information of substantial sensitivity," as to which there was a real threat of use by Mr. Imhof, to the detriment of American.[1]

While some have argued that IBM v. Papermaster, 2008 WL 4974508 (SDNY 2008), "breathed new life" into the inevitable disclosure doctrine, "apparently easing the burden...to show the irreparable harm necessary for a court to grant an injunction preventing the former employee from working for a competitor,"[2] this analysis is flawed. The defendant in *Papermaster* was party to a noncompetition agreement; the issue was whether to enforce that agreement.

Papermaster's holding was not new, but was consistent with a long series of New York cases, dating back to 1919,[3] in which noncompetition agreements were enforced, based on findings that the former employee knew plaintiff's secrets, that work for a competitor would likely result in use of those secrets, and accordingly, that enforcement of the parties' agreement was warranted.

Protection of confidential information has long been recognized as a basis for enforcement of a reasonable noncompetition agreement in New York, see *Reed, Roberts, Assocs. v. Strauman*, 40 N.Y.2d 303 (1976). Neither *Papermaster*, nor any other recent New York case, has provided support for using the inevitable disclosure doctrine as a substitute for a noncompetition agreement.

No Presumption of Injury

In *American*, the court rejected American's argument that "...Imhof misappropriated trade secrets and that this automatically gives rise to a presumption of irreparable injury."[4] Citing the recent case of Faiveley Transport Malmo AB v. Wabtec Corp., 559 F.3d 110, 118 (2d Cir. 2009)-in which the U.S. Court of Appeals for the Second Circuit rejected this view ("Some courts in this circuit have read [our] passing observation to mean that a presumption of irreparable harm automatically arises upon the determination that a trade secret has been misappropriated....That reading is not correct.")-the court ruled that "no such presumption arises on the facts of this case."[5]

The *American* court further held that it was not possible "to separate neatly the assessment of the threat of irreparable injury from that of the likelihood of...success on the merits," as evaluation of each required "consideration of whether the former employee possesses confidential information...and whether he is likely to communicate that information to the new employer or otherwise use it to the detriment of the former."[6] Without the presumption of irreparable harm, American needed to prove both.

That Mr. Imhof took American materials undoubtedly gave weight to American's claims, as the taking of materials by former employees has been recognized as a basis for injunctive relief.[7] But improper taking does not end the inquiry; New York courts must determine whether the information is protectable, and whether it is likely to be used improperly. In other words, even when there is physical taking, the court must still determine whether injunctive relief is appropriate.[8]

Judge Lewis A. Kaplan carefully assessed whether Mr. Imhof was likely to use American's information, putting aside for the moment, whether this information was legally protectable. Judge Kaplan noted that on learning American's allegations, Delta conducted an investigation and found that Mr. Imhof did not convey confidential American information. American did not contest Delta's conclusion, and Delta made clear that it would not accept such information in the future.

The court held that, while Mr. Imhof's initial taking of information could have resulted in a finding of irreparable harm, once properly made aware, Mr. Imhof promptly acknowledged his error and offered to return or destroy all copies, at American's option. The court found "there is no material risk that Mr. Imhof will retain copies of the documents, much less...disclose them to Delta."[9] The court made a similar finding regarding American's confidential information. ("Regardless of whether Mr. Imhof's copying of American materials...was ill-intended or simply ill-informed, the ensuing events...quite likely have taught him a lesson that he will not soon forget.").[10]

Accordingly, "American's motion comes down to the argument...that Mr. Imhof inevitably will disclose or, more properly, use to its disadvantage valuable information that belongs to American."[11] The inevitable disclosure doctrine was thus poised as the basis of decision in the case.

The 'Pepsico' Case

The "excitement" generated by inevitable disclosure can be traced to *Pepsico v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). In *Pepsico*, the court enjoined Redmond, a senior Pepsico vice president, from working in a similar position for Quaker Oats, a direct competitor, even though Redmond entered into a confidentiality agreement with Pepsico, not a noncompete. There was no finding of actual misappropriation, only of defendant's likely–indeed, inevitable–reliance on remembered confidential information. Further, the information related to marketing, distribution, and pricing and packaging plans, rather than scientific or technical data.

While the district court relied, in part, on a lack of straightforwardness by defendants, the U.S. Court of Appeals for the Seventh Circuit saw this conduct as ambiguous; there were no findings of misappropriation, only that Redmond had detailed knowledge of plaintiff's confidential information, and that he could not work in the senior position at Quaker Oats, without inevitably relying on this knowledge. The court held that under the Indiana Uniform Trade Secrets Act, threatened misappropriation could be enjoined, and accordingly, Redmond would be enjoined from working for Quaker Oats.

Thus, under *Pepsico*, an employee could be enjoined from new employment even in the absence of an enforceable noncompete, and in the absence of a finding of misappropriation. *Pepsico* appeared to create the "...imperceptible shift in bargaining power that...can be a powerful weapon in the hands of an employer" *Earthweb, Inc. v. Schlack*, 71 F.Supp.2d 299, 310 (SDNY 1999).

The nature of the *Pepsico* trade secrets seemed to expand the threat. ("...PepsiCo has not brought a traditional trade secret case, in which a former employee has knowledge of a special manufacturing process or customer list and can give a competitor an unfair advantage by transferring the technology or customers." *Pepsico*, at 1270.)

Pepsico's reliance on the Uniform Trade Secrets Act (UTSA) was also significant, as the UTSA has been adopted in more than forty states, and the act provides that it be construed to achieve uniform application. In other words, *Pepsico* was potential authority in all States adopting the UTSA. While the Restatement of Torts, Section 757, which is relied upon in New York, provides an extremely broad definition of trade secrets, and while New York courts will, where appropriate, enjoin threatened misappropriation, New York courts have sometimes been more limited in finding protectable trade secrets in a party's confidential information, e.g., *Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 738-39 (3d Dept. 2003) ("...Supreme Court adopted an overly expansive definition of 'trade secret' so as to encompass nearly all confidential business documents..."), and have been deliberate in the enforcement of express noncompetition agreements, e.g., Reed, Roberts, supra.

Pepsico was decided in 1996, in the midst of the internet boom, and of a growing sensitivity to the importance (and portability) of intellectual property of all kinds. But after *DoubleClick, Inc. v. Henderson's* reliance on inevitable disclosure and *Pepsico* in 1997,[12] New York courts pulled back. In *Earthweb*, Judge William H. Pauley III reviewed the tension between inevitable disclosure and other aspects of New York law: "[w]hile *DoubleClick* appears to represent a high water mark for [] inevitable disclosure [] in New York, its holding rests heavily on evidence of the defendants' overt theft of trade secrets and breaches of fiduciary duty...in cases that do not involve the actual theft of trade secrets, the court is essentially asked to bind the employee to an implied-in-fact restrictive covenant...This runs counter to New York's strong public policy...Absent evidence of actual misappropriation...the doctrine should be applied in only the rarest of cases."[13]

'Marietta Corp. v. Fairhurst'

The Appellate Division addressed inevitable disclosure in *Marietta* and largely rejected the doctrine as a substitute for a noncompetition agreement: "[a]cknowledging that irreparable harm can be established if a trade secret has been misappropriated, where there is no actual theft of a trade secret, the court...is 'asked to bind the employee to an implied-in-fact restrictive covenant'...[citing *EarthWeb*]. As no restrictive covenant was in existence here and our well entrenched state public policy considerations disfavor such agreements, the doctrine of inevitable disclosure is disfavored as well, '[a]bsent evidence of actual misappropriation....' In those rare instances where such doctrine is applied...the proponent should not be permitted to 'make an end-run around the [confidentiality] agreement by asserting the doctrine of inevitable disclosure as an independent basis for relief....' (footnote and citations omitted)"

The court also held that the parties' confidentiality agreement implicitly undercut plaintiff's claim: "While we agree that Fairhurst was privy to confidential information, there exists a...confidentiality agreement which clearly anticipated that he may change his employment during its duration after acquiring plaintiff's confidential information."[14]

The Doctrine in New York

The inevitable disclosure doctrine has been used in New York in two contexts: (i) as a substitute for a noncompetition agreement-for which it is largely rejected; and (ii) as a basis for enforcement of an otherwise enforceable restrictive covenant, for which, in appropriate cases, it is used.[15] While the concepts addressed in each context are relevant to finding irreparable harm, analyzing the doctrine, without placing it in context, could result in error. As the court in *American* held, quoting *EarthWeb*, "'the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory.' If it is not to abrogate the requirement of 'a clear showing' of 'actual and imminent' irreparable harm, it must be applied with great care."[16]

After reviewing the problematic nature of the doctrine, Judge Kaplan stated that inevitable disclosure would be considered based on: the strength of the showing that the former employee knows information, the use of which on behalf of a competitor, would damage the former employer, a factor that includes whether the information is technical or specialized scientific data, as opposed to possibly less sensitive sales or general business information; the degree of similarity between the employee's old and new job; whether the new job is for a direct competitor; whether there was deliberate misappropriation; anything else pertinent to the case.[17]

The court noted that Mr. Imhof was not a "food chemist privy to the secret formula for Coca-Cola," but was responsible for sales of a widely used service, much information as to which is public or available from customers.[18] The court found that American failed to show that Mr. Imhof had specific protectable information that was actually at risk. ("[American] claims also that he was exposed to an abundance of other confidential information that he inevitably will use to Delta's advantage...But these claims are generalities, easily voiced and, to a great degree, devoid of real content....American has not made a very convincing case that Mr. Imhof today knows protectable information of substantial sensitivity and that he inevitably would use in a manner detrimental to American..."[19]).

For purposes of the analysis, the court assumed, based on Mr. Imhof's 22 years at American, that such information likely existed. But after "balanc[ing] the equities," the court denied American's request. In so ruling, the court expressed sentiments similar to those in *Marietta*:

If American were as deeply concerned about the risk of Mr. Imhof going to work for a competitor...it had the means to prevent it. It could have offered Mr. Imhof an employment contract containing a reasonable covenant against post-employment competition....Whether it declined that option because it wished to preserve its flexibility to discharge Mr. Imhof at will...or for some other reason, it has only it self to blame. Its effort to obtain the substantial equivalent by judicial decree without paying for it and to do so on the basis of vague claims of trade secrets and confidential information is not especially appealing.[20]

Practical Guidance

In light of *American*, several practical suggestions are in order:

- Take Judge Kaplan's advice. If an employer needs a "reasonable covenant against postemployment competition," negotiate one. Don't plan on inevitable disclosure as a substitute.

- Delta avoided serious consequences by acting immediately and decisively to avoid improperly accepting a competitor's information. Taking appropriate steps, both routinely, and prior to a new hire, and prompt action on discovery of a problem, are warranted. Every employer should consider whether it has adequate controls and agreements in place, both to protect it s own information, and to prevent receipt of unwanted information. Judge Kaplan's considered response to an employee who made a serious error, but who attempted to correct his mistake, encourages this exact type of response.

- Virtually all of the cases recognize that there will be the "rarest of cases," where relief might be warranted under the inevitable disclosure doctrine. And New York's trade secrets law provides a powerful remedy, such as where protectable information is misappropriated, or fiduciary duties, violated. No one's imagination is good enough to think of every possible scenario. In an appropriate case, inevitable disclosure might still afford a remedy.

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Endnotes:

[1] 620 F.2d at 579, 580, 585, 586.

[2] "Papermaster Could Further Expand Use of Inevitable Disclosure Doctrine" N.Y.L.J., Jan. 2, 2009, p. 4.

[3] See, *Eastman Kodak. v. Powers Film*, 189 A.D. 556 (4th Dept. 1919).

[4] 620 F.2d at 579.

[5] Id.

[6] 620 F.2d at 579, 580.

[7] See, *Leo Silfen, Inc. v. Cream*, 29 N.Y.2d 387, 391-392 (1972) ("If there has been a physical taking or studied copying, the court may in a proper case enjoin solicitation, not necessarily as a violation of a trade secret, but as an egregious breach of trust and confidence... ").

[8] See *Faiveley Transport Malmo AB v. Wabtec Corp.,* 559 F.3d 110 (2d Cir. 2009); *Nalge Nunc Int'l v. Warren*, Index No. 2006/11195, Slip Op., at 12-13 (Sup. Ct. Monroe Co. Oct. 2, 2006) (" ...plaintiff has not shown use, threatened use, or other exploitation, a necessary element of a misappropriation of trade secrets c1aim"). Compare *Doubleclick, Inc. v. Henderson*, 1997 WL 731413,6 (Sup. Ct., N.Y. Co. 1997) ("...the actual use of DoubleClick's trade secrets...and other actions...demonstrate defendants' cavalier attitude toward their duties to their former employer. ***Defendants have demonstrated that they have no compunction against using DoubleClick's business information to compete against it."); *Lincoln Steel Products v. Schuster*, 49 A.D.2d 618 (2d Dept. 1975). Cf., *Ecolab, Inc. v. Paolo*, 753 F.Supp. 1100 (EDNY 1991) (means by which information obtained is relevant to whether it should be treated as trade secret).

[9] 620 F.2d at 580.

[10] 620 F.2d at 581.

[11] Id.

[12] *Doubleclick, Inc. v. Henderson*, supra.

[13] 71 F.5upp.2d at 310 (citations omitted).

[14] 301 A.D.2d at 738.

[15] See *Capital District Physicians v. Henderson*, Index No. 1174-07 (Sup. Ct., Albany Co. March 12, 2007).

[16] 620 F.2d at 582.

[17] Id.

[18] Id.

[19] 620 F.2d at 584, 585.

[20] 620 F.2d at 587.

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