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'Inevitable Disclosure' Not Permitted As Substitute For Non-Compete Agreement

BY GERARD F. NORTON

Where the plaintiff could not rely on a non-compete agreement, it asserted the doctrine of inevitable disclosure to bar a former employee from working for a competitor in its complaint in *Marietta Corp. v. Thomas Fairhurst.*

The New York courts disfavor agreements that restrict the ability of a former employee to work for a competitor. In a reversal handed down on January 2, 2003, the New York State Supreme Court Appellate Division, Third Department, reiterated this position and rejected the doctrine of inevitable disclosure which was propounded as evidence of the irreparable harm which is required to support the grant of an injunction.

Where there was no evidence of misappropriation of trade secrets by the defendant, the plaintiff would 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." *Earth - Web v. Schlack*, 71 F.Supp. 2d 299 (S.D.N.Y. 1999).

Background

When his employment with the plaintiff, Marietta Corp., was terminated in May, 2002, defendant, Thomas Fairhurst, had worked for the company for eight years and was senior vice president for sales and marketing.

In June, Fairhurst became president of U.S. operations for Pacific Direct, Inc. The responsibilities of his new position included sales promotion.

Both Marietta and Pacific Direct are suppliers of hotel amenities. Marietta supplies basic toiletry items in bulk to large hotel chains, while Pacific Direct sells similar branded products to four and five-star hotels.

At the time of his termination from Marietta, Fairhurst was bound by a nondurational confidentiality agreement. The agreement did not contain a restriction on competitive employment, nor a provision concerning plaintiff's right to injunctive relief upon a threatened breach of confidentiality.

Court's Analysis

In this contractual setting, and despite finding "no persuasive evidence that Fairhurst has intentionally disclosed any proprietary information he obtained from plaintiff to Pacific Direct," the lower court granted an injunction against Fairhurst's employment with Pacific Direct, finding that it was extremely likely that he would use Marietta's trade secrets, if only unconsciously, to the unfair advantage of his new employer.

The appellate court reversed, finding insufficient evidence in the record to support these findings. In a memorandum decision, Judge Karen K. Peters discussed the inevitable disclosure doctrine and the nature of trade secrets which will be protected by the court.

Citing *EarthWeb v. Schlack*, Judge Peters wrote that the effect of the inevitable disclosure doctrine is to bind the employee to an implied-in-fact restrictive covenant not to compete where there has been no misappropriation of a trade secret. Public policy considerations disfavor non-compete agreements, he said, and thus the doctrine of inevitable disclosure is disfavored as well.

To justify injunctive relief based on the doctrine, the following factors must be present: (1) the employers are direct competitors providing the same or very similar products or services; (2) the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; (3) the trade secrets at issue are highly valuable to both employers and (4) the nature of the industry and its trade secrets.

To support the issuance of an injunction there must be a showing of irreparable harm. Since there was no actual misappropriation by the defendant, the showing emanated from the presumption that there would be an inevitable disclosure of trade secrets by Fairhurst since Pacific Direct was in direct competition with Marietta, and since he possessed highly confidential knowledge concerning manufacturing processes, market strategies, or the like.

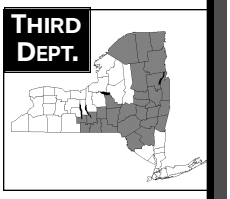
Confidential information, however, does not necessarily equate to trade secrets. Referring to the Restatement of Torts §757, Judge Peters enumerated the factors to be considered concerning whether the alleged trade secret is truly "secret:" (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Here the court found that the New York State Supreme Court, Courtland County, adopted an overly expansive definition of trade secret which included nearly all confidential business documents. Pricing data and market strategies as well as an intricate knowledge of the business is not enough, nor is the solicitation of former customers, unless the customer list itself would be considered a trade secret, which was not the case here. Further, plaintiff failed to establish a likelihood of success on the merits, and the balance of the equities favored Fairhurst and Pacific Direct.

Judgment reversed.

WHAT THE COURT RULED

Marietta Corporation v. Thomas Fairhurst, *New York Appellate Division, Third Department*



JUSTICE KAREN K. PETERS

INDEX NO.: 92371

ISSUE: Could the appellant company bar a former employer from working for a competitor where there was never a non-compete agreement, and only a confidentiality agreement?

RULING: No, the doctrine of inevitable disclosure is disfavored and unsupported by the facts of the case.

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