

The Scope Of 'Inevitable Disclosure' In Trade Secrets

Law360, New York (November 04, 2013, 1:01 PM ET) -- Can an employer enjoin an employee from moving to a competitor by claiming that the confidential nature of his or her position will result in the "inevitable disclosure" of trade secrets to the competitor, without proof of any wrongdoing by the employee? The U.S. District Court for the Southern District of New York recently has answered by ruling that an employer cannot validly assert a claim seeking to enjoin its employee from moving to a competitor solely based upon the hypothesis that there would be "inevitable disclosure" of the former's trade secrets, without any proof of any wrongdoing or improper disclosure by the employee or the employee's breach of a noncompete agreement. *Janus et Cie v. Andrew Kahnke*, No. R-CIV-7201-WHP (S.D.N.Y. Aug. 29, 2013).

In so ruling, Judge William H. Pauley III limited the parameters of the so-called "inevitable disclosure" of trade secrets doctrine under New York law. In New York, the doctrine has been considered only in connection with motions for preliminary injunctions (temporary relief) to block a former employee's move to a competitor, where it is alleged that the former employee improperly disclosed trade secrets or committed some other wrongdoing.

After alleging the employee's wrongdoing, the plaintiff relies on the inevitable disclosure doctrine to show irreparable injury (a predicate for injunctive relief), claiming that because the employee's job responsibilities with the new employer are so similar to those s/he had at the former employer, it is inevitable that the employee will disclose and use the former employer's trade secrets in his/her new position.

New York has a strong public policy against restrictive covenants not to compete and thus firmly rejects the inevitable disclosure doctrine — except in the limited above-listed circumstance — because New York recognizes that application of the doctrine effectively results in the formation of a noncompete agreement where none was bargained for.

The key question in *Janus et Cie v. Kahnke* was whether an injunction or even a claim could lie if there was an allegation of "inevitable disclosure" but no allegation of any wrongdoing.

In *Janus*, a California corporation sued to prevent the defendant from working with what they claimed was a direct competitor in New York, Dedon Inc. As the inevitable disclosure doctrine has been rejected in California, the plaintiff sought application of New York law.

In its complaint, the plaintiff asserted inevitable disclosure as a naked, stand-alone cause of action, rather than attempting to use the doctrine to show irreparable harm in support of a motion for a preliminary injunction, where separate allegations of actual wrongdoing also were present.

As Judge Pauley noted:

Janus now brings this action for inevitable disclosure of trade secrets, seeking a permanent injunction barring [the employee] from disclosing any of Janus' trade secrets or confidential information and from working for [the alleged competitor] in any area where Janus and [the alleged competitor] are direct competitors. Janus does not allege that [the employee] breached the non-disclosure agreement. Nor does Janus assert any facts indicating that [the employee] actually misappropriated or disclosed any of Janus' trade secrets. Rather, Janus seeks an injunction based on the theory that [the employee's] position with [the alleged competitor] is so similar ... that he cannot possibly perform the functions of his position ... without using and/or disclosing confidential information and trade secrets belonging to Janus.

In sum, the Janus complaint sought relief without any allegation or proof that there was any actual misappropriation of trade secrets or breach of a noncompete agreement.

The defense counsel highlighted the fact that Janus' argument has never before been attempted under New York law and that it violates the public policy of this state. In essence, Janus sought to file a claim without any allegation whatsoever that the employee ever committed any wrong.

Janus further argued that even though it failed to allege any wrongdoing, and even though it did not negotiate for a noncompete contract, it "should be permitted to obtain [its alleged competitor's] confidential information in order to determine whether it can make a case to protect its own." Janus et Cie.

The court decisively rejected Janus' position, dismissed the complaint in its entirety and held that application of the inevitable disclosure doctrine under New York law is limited to "instances where there is evidence of actual misappropriation of trade secrets, or where plaintiff asserts a claim for breach of a non-compete agreement." Id.

"Discovery here," Judge Pauley found, "would be a fishing expedition through a competitor's files. ... This Court refuses to countenance the imposition of an unlimited, unbargained-for restrictive covenant on Mr. Kahnke based on threadbare allegations." Id.

New York Courts Will Not Apply the Inevitable Disclosure Theory Without Allegations of Wrongdoing or Breach of a Noncompete

The Janus et Cie decision is consistent with the holdings of prior New York courts that did not recognize an independent claim of inevitable disclosure of trade secrets.[1]

New York courts have only applied the theory on an ancillary issue — the right to preliminary injunctive relief — if and only if there are underlying allegations of breach of a noncompete agreement or actual misappropriation of trade secrets or other wrongdoing.[2]

Judge Pauley rightly refused to expand the reaches of the doctrine in the manner in which Janus et Cie urged:

Janus makes the extraordinary request that this Court be the first to recognize the inevitable disclosure of trade secrets as a stand-alone claim in a complaint bereft of any allegations that Kahnke misappropriated trade secrets or breached a non-compete agreement. In essence, Janus asks this Court to allow a lawsuit to proceed to discovery when the Complaint alleges no wrongdoing by Kahnke. But the end game is a permanent injunction that would greatly expand the reaches of a restricted doctrine heavily disfavored under New York law.

In *Janus et Cie*, a key factor was that Janus and the employee had never entered into a noncompete agreement. Where the parties simply execute a confidentiality agreement, application of the inevitable disclosure theory would permit “the parties’ confidentiality agreement [to] be wielded as a restrictive covenant. ... This can be a powerful weapon in the hands of an employer; the risk of litigation alone may have a chilling effect on the employee. Such constraints should be the product of open negotiation.”[3]

To permit the creation of an implied-in-fact noncompete agreement where the former employee has committed no wrong would have far-reaching implications across countless industries and employment relationships and would severely stifle an employee’s freedom and ability to leave his or her employer. Under a theory of inevitable disclosure, one could use this harassing litigation tactic against just about every middle- and upper-level manager in every company in the country that has some form of confidential information.

Such a decision also would permit the employer to engage in a blatant and harassing fishing expedition in the hopes of finding some evidence to support a valid claim. E.g., *Stoner v. Walsh*, 772 F. Supp. 790, 807 (S.D.N.Y. 1991) (holding that plaintiff cannot be permitted to conduct a fishing expedition to “conjure up a claim that does not exist”).

This is an abuse of process. This is not what courts are supposed to be used for. It would violate public policy for a defendant to be forced to defend a lawsuit that does not contain a single valid claim that the defendant has committed a wrong or that the plaintiff has suffered any harm.

In fact, New York courts recognize that “the plaintiff’s injury must be actual or imminent to ensure that the court avoids deciding a purely hypothetical case in which the projected harm may ultimately fail to occur.” *Baur v. Veneman*, 352 F.3d 625, 632 (2d Cir. 2003). Courts rightly reject harassing attempts to pursue “fishing expeditions” into a defendant’s files in an attempt to search for a valid claim. [4]

For good and sound public policy reasons, there is no valid claim to force someone to go to court without an allegation of wrongdoing. The doctrine of inevitable disclosure is not a substitute; it cannot take the place for the failure to allege wrongdoing.

Conclusion

Clearly, the law must balance between the protection against claims of actual trade secret misappropriation and permitting employers to harass former employees by litigating unsupported claims without alleging any wrongdoing. Courts will not and should not support actions that are little more than legal “fishing expeditions” trying to conjure up a claim that does not exist.

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[1] *Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 65 (3d Dep't 2003) (The inevitable disclosure theory has "not yet [been] adopted by the state courts" of New York.); see also *First Empire Securities, Inc. v. Miele*, 2007 WL 2894245, at *5, 851 N.Y.S.2d 57 (Table) (N.Y. Sup. Ct. Suffolk Cty. 2007).

[2] E.g., *Marietta Corp.*, 754 N.Y.S.2d at 65-66 ("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 by an employee.'" (quoting *EarthWeb Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999)); *Boston Laser Inc. v. Qinxin Zu*, No. 3:07-CV-0791T (TJM/DEP) (N.D.N.Y. Sept. 21, 2007) ("[F]ederal courts also have exemplified a reluctance to use the doctrine to grant injunctive relief, and have applied the doctrine only where evidence of actual misappropriation of trade secrets exists."); *Colonize.Com Inc. v. Perlow*, No. 03-CV-466 (N.D.N.Y. Oct. 23, 2003) ("New York courts have used the doctrine very sparingly to grant injunctive relief only in circumstances where other evidence of theft of trade secrets exists."); *U.S. Re Companies Inc. v. Scheerer*, 838 N.Y.S.2d 37, 40 (1st Dep't 2007) ("Absent concrete evidence that the employee has actually breached a confidentiality agreement, there is no basis to bind him 'to an implied in fact restrictive covenant' not to compete."); see also *O Zon Inc. v. Charles*, 272 F.Supp.2d 307, 312 (S.D.N.Y. 2003) (finding "case or controversy" requirement was not met where plaintiff had not alleged actual infringement of trade dress).

[3] *EarthWeb Inc. v. Schlack*, 71 F. Supp. 2d at 310; see also *U.S. Re Companies*, 41 A.D.3d at 155, 838 N.Y.S.2d at 40 ("Absent concrete evidence that the employee has actually breached a confidentiality agreement, there is no basis to bind him to an implied in fact restrictive covenant not to compete.").

[4] See, e.g., *Stoner v. Walsh*, 772 F.Supp. at 807; *Singer v. Bell*, 585 F.Supp. 300, 304 (S.D.N.Y. 1984) ("The discovery rules 'are not a hunting license to conjure up a claim that does not exist.'" (quoting *Samuels v. Eleonara Beheer, B.V.*, 500 F.Supp. 1357, 1362 (S.D.N.Y. 1980)). Moreover, filing preemptive claims prior to acts of infringement may serve to weaken the owner's intellectual property rights. See *Serve No Complaint Before Its Time: Owners of Intellectual Property Rights Should Be Patient In Filing Claims To Protect Their Holdings*, Michael J. Lane and Daniel J. Healy, *Anderson Kill & Olick, P.C. Commercial Litigation Advisor*, Winter 2003/2004. In *The O ZON, Inc. and Visual Graphics Systems, Inc. v. Bart Charles*, 272 F. Supp.2d 307 (S.D.N.Y. 2003), the United States District Court for the Southern District of New York reviewed claims that (1) sought to prevent possible, future trade dress infringement and (2) alleged breach of a confidentiality agreement. The plaintiffs claimed they had intellectual property rights to "restaurant and food designs, graphics, computer programs and the concepts and trademarks that comprise the Ozon brand" as well as in certain confidential information, defined in a confidentiality agreement. Plaintiffs claimed Charles infringed their intellectual property rights and sought: (1) a declaration that Charles had no right to use Plaintiffs' alleged intellectual property or confidential information; (2) injunctive relief; (3) a finding of infringement under the Lanham Act; and (4) a finding that Charles had breached the confidentiality agreement. The Court dismissed each of plaintiffs' claims, finding that the complaint alleged only potential, future acts that could not constitute present infringement or breach of contract. The Court's decision rested in part on the well-established legal principle that a declaratory judgment may issue only where an "actual case or controversy" exists between parties. If an owner prematurely files an infringement case, it may create bad precedent, reducing the strength of intellectual property in future disputes.