

Pace I.P., Sports & Entertainment Law Forum

Volume 1
Issue 1 *Spring 2011*

Article 1

April 2011

Practice Guide: Post-Employment Trade Secrets in New York

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Recommended Citation

Stephanie Soondar, *Practice Guide: Post-Employment Trade Secrets in New York*, 1 Pace. Intell. Prop. Sports & Ent. L.F. 1 (2011).
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Practice Guide: Post-Employment Trade Secrets in New York

Abstract

Stephanie Soondar writes an article based on modern day trade secrets. Her article highlights the importance placed on trade secrets in today's market. She provides an in depth look at: What trade secrets are; how they are protected; and the causes of action that result in disclosing trade secrets. Her article focuses on New York practice.

Keywords

trade secrets

Cover Page Footnote

Stephanie Soondar currently acts as Staff Mediation Counsel for construction disputes at Construction Lien Consultants, LLC. She has a background in Loss Mitigation and practice interests in Business Bankruptcy and Private Equity. She earned her J.D. from Temple University, her M.A. in International Relations from the University of Kent at Canterbury, and her B.B.A. in Economics from Temple University. She is licensed to practice in New York and New Jersey.

Practice Guide: Post-Employment Trade Secrets in New York

Stephanie Soondar¹

I. INTRODUCTION

Up until the Summer of 2010 Mark Hurd (“Hurd”) acted as Chairman, Chief Executive Officer, and President of information technology giant Hewlett-Packard (“HP”).² Hurd resigned in August when an internal investigation produced evidence of inappropriate conduct that violated HP’s “standards of business conduct.”³ In Hurd’s severance agreement Hurd waived future claims against HP in exchange for \$12.2 million in severance compensation and vested and restricted stock options then-estimated at \$34.6 million.⁴ Only a month later in September Hurd accepted Co-President and Board Member positions with competitor Oracle Corporation.⁵ The next day HP filed a complaint alleging breach of contract and threatened misappropriation of trade secrets and demand for injunctive relief was requested.⁶ HP argued that Hurd was subject to explicit contract provisions in his employment contract and his severance agreement prohibiting such conduct.⁷ HP also argued that the HP trade secret data Hurd possessed would be used in his new roles at Oracle.⁸ Two weeks later a settlement was reached between the

¹ Stephanie Soondar currently acts as Staff Mediation Counsel for construction disputes at Construction Lien Consultants, LLC. She has a background in Loss Mitigation and practice interests in Business Bankruptcy and Private Equity. She earned her J.D. from Temple University, her M.A. in International Relations from the University of Kent at Canterbury, and her B.B.A. in Economics from Temple University. She is licensed to practice in New York and New Jersey.

² *HP CEO Mark Hurd Resigns*, HP.COM, (Aug. 6, 2010), <http://www.hp.com/hpinfo/newsroom/press/2010/100806a.html>.

³ *Id.*

⁴ Connie Guglielmo & Ian King & Aaron Ricadela, *HP’s Mark Hurd Resigns After Sexual-Harassment Probe*, BLOOMBERG (Aug. 6, 2010), <http://www.bloomberg.com/news/2010-08-06/hp-chief-mark-hurd-resigns-finance-chief-cathie-lesjak-named-interim-ceo.html>.

⁵ Robert Guth & Ben Worthen & Joann Lublin, *HP Sues to Stop Ex-Chief’s Job*, THE WALL STREET JOURNAL, (Sept. 8, 2010), <http://online.wsj.com/article/SB10001424052748704358904575477870066918884.html>.

⁶ *Hewlett-Packard Company v. Mark Hurd*, No. 110-cv-181699 (Superior Court of California, Santa Clara County) (Sept. 7, 2010).

⁷ *Id.*

⁸ *Id.*

parties,⁹ allowing Hurd to continue as Co-President and Board Member of Oracle¹⁰ in exchange for forfeiting part of his severance compensation.¹¹ HP's handling of these circumstances has produced litigation including a shareholders' derivative suit against HP and its Board seeking damages and internal HP corporate governance changes.¹² This practice guide will discuss the legal landscape these parties would have faced had they been subject to New York jurisdiction.

II. WHAT IS A TRADE SECRET?

A "trade secret" in New York is a "formula, pattern, device or compilation of information" used in an employer's business and is the source of competitive advantage over competitors who do not know of or do not use the trade secret.¹³ To identify what is and is not a trade secret, New York relies on the six factor element test found in the Restatement of Torts, Section 757, "(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 by the business 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 by the business in developing the information; and (6) the ease or difficulty with which the

⁹ Securities and Exchanges Commission, Hewlett Packard Co (HPQ) Form 8-K (Filed Sept. 20, 2010) (Hurd waived his severance stock option compensation and HP withdrew its complaint (Ashlee Vance and Vernie G. Kopytoff, *H.P. Settles Lawsuit Against Hurd*, THE NEW YORK TIMES (Sept. 21, 2010), <http://www.nytimes.com/2010/09/21/technology/21hewlett.html>)).

¹⁰ Sophia Pearson & Jef Feeley, *HP Could Have Fired Ex-Chief Hurd, Investor Says in Lawsuit*, BLOOMBERG (Jan. 15, 2011), <http://www.businessweek.com/news/2011-01-15/hp-could-have-fired-ex-chief-hurd-investor-says-in-lawsuit.html>.

¹¹ Joseph E. Bachelder III, *HP Severance Case Raises Concerns*, NACD DIRECTORSHIP (Mar. 8, 2011), <http://www.directorship.com/hp-severance-case-raises-governance-concerns>.

¹² Brockton Contributory Retirement System v. Andreessen et al., Case Number 1-10-cv-179356 (Superior Court of California, Santa Clara County Aug. 12, 2010) (The suit alleges a nearly \$9 billion loss in market capitalization, and related credibility due to the handling of Hurd's dismissal), (*Id.*) (The suit also alleges Hurd could have been fired for cause, significantly limiting his severance package). (*Id.*) (*See also* Espinoza v. Hewlett-Packard Co., CA6000 (Del. Ch. 2010); Zucker v. Andreeseen, CA6014 (Del. Ch. 2010)).

¹³ *IBM v. Papermaster*, No. 08-CV-9078, 2008 U.S. Dist. WL 4974508, 21 (S.D.N.Y. Nov. 21, 2008) (citing *N. Atl. Instruments v. Haber*, 188 F.3d 38, 44 (2d Cir. 1999)).

information could be properly acquired or duplicated by others.”¹⁴ Customer lists are frequently considered trade secrets.¹⁵

III. HOW ARE TRADE SECRETS PROTECTED?

Once a company’s trade secrets are identified by the employer, they must be marked and identified to the employees.¹⁶ Employees must understand what these trade secrets are, that they are exposed to them, and that they have an affirmative duty not to disclose them.¹⁷ A common and frequent label used to mark such trade secrets is, “XYZ COMPANY CONFIDENTIAL TRADE SECRETS DO NOT DISCLOSE OR MISAPPROPRIATE.”¹⁸ Once trade secrets have been identified, marked internally and communicated to employees, employers then need to protect the trade secrets.¹⁹ It is not enough that the information is labeled “trade secret,” but internal procedures should be created that after an employee uses such trade secret the employee then knows to safe-guard the information.²⁰

Although explicit restrictive covenants, such as non-disclosure and non-compete provisions in employment or severance agreements, are frequently useful in the protection of information identified as trade secrets, there is no protection from reverse engineering.²¹ In New

¹⁴ *Id.* at 22 (citing *N. Atl. Instruments*, 188 F.3d at 44; *Marietta Corporation v. Fairhurst*, 301 A.D.2d 734, 738 (N.Y. App. Div. 3d Dept. 2003)).

¹⁵ See *Integrated Cash Management Services, Inc. v. Digital Transactions, Inc.*, 920 F.2d 171 (2d Cir. 1990)(Customers lists are considered trade secrets only where compiling them is not a readily ascertainable exercise (citing *FMC Corporation v. Taiwan Tainan Giant Industrial Co., Ltd.*, 730 F.2d 61 (2d Cir. 1984) (Employees are permitted to solicit employer customers, however, upon departure (citing *1-800 Postcards v. AD Die Cutting & Finishing Inc.*, 2010 NY Slip Op 51368U (Sup. Ct. of New York, New York County July 9, 2010)))).

¹⁶ Thomas Boyle, *Got Trade Secrets? No? Guess Again*, 22 Utah Bar J. 32, 33 (2009).

¹⁷ *Id.* at 33-4.

¹⁸ *Id.* at 33-4.

¹⁹ *Id.* at 34.

²⁰ *Id.* at 34-5.

²¹ *Faiveley Transp. Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 118 (2d Cir. 2009) (“Trade law does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering.” (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974)) (rev’d, 416 U.S. 470 (1974))).

York, a restrictive covenant must be reasonable in time and geographic area.²² Where a restrictive covenant is found to be reasonable, the covenant is enforced “to the extent necessary:” (1) to prevent the employee’s solicitation or disclosure of employer trade secrets; (2) to prevent an employee’s release of confidential information regarding the employer’s customers; or (3) where the employee’s services are somehow unique or hard-sought after by the former employer.”²³

Statutorily, most American states have adopted some form of the Uniform Trade Secret Act (“USTA”).²⁴ New York is among only a handful of states that have not done so;²⁵ this has been criticized as potentially problematic as it creates some judicial inefficiencies in interstate commerce.²⁶ As a matter of practicality, however, New York has several common law bases that plaintiff employers can use to protect their competitive advantage.²⁷

Plaintiff employers may seek equitable relief in the form of a preliminary injunction that restrains the departed employee in some way. A party in the Second Circuit requesting a preliminary injunction must show irreparable harm and either the likelihood of success on the merits of plaintiff’s claims or “sufficient[ly] serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party

²² *IBM*, 21 at 36 (citing *Ticor Title Ins.*, 173 F.3d at 69; accord *Payment Alliance Int’l*, 530 F. Supp. 2d at 484).

²³ *Id.* at 38 (citing *Ticor Title Ins.*, 173 F.3d at 70; accord *Global Switching Inc.*, 2006 U.S. Dist. LEXIS 44450 at 15).

²⁴ *The Uniform Trade Secrets Act (UTSA)*, NDA, (last visited Jan. 17, 2010), <http://www.ndasforfree.com/UTSA.html> (last visited Jan 17, 2010).

²⁵ *Id.* (Other states in the Second Circuit have adopted some form of the USTA (citing Conn. Gen. Stat. Chapter 625 Sec. 35-50 (2010); Vermont Title 9 Ch. 143 (2010)).

²⁶ *Boyle*, supra. n. 15.

²⁷ This document will not address vaguer assertions made to protect trade secrets, including those under the Restatement of Unfair Competition or the Economic Espionage Act (James Mulcahy & Joy Tassin, *Is Pepsico the Choice of the Next Generation*, 21 HOFSTRA LAB. & EMPL. L.J. 233 (2003); Further, the Lanham Act will also not be explored; although it does provide substantial employer protection, it is a tool to protect against trademark infringement, dilution, and false advertising; *Tactica Int’l v. Atl. Horizon Int’l*, 154 F. Supp. 2d 586, 598 (S.D.N.Y. 2001) (citing 15 U.S.C. Section 1125). “Section 43(a) of the Lanham Act provides a cause of action against any party who in connection with any goods or any container for goods, uses in commerce any word, term, symbol, or device, or any combination thereof which is likely to cause confusion, or to cause mistake, or to deceive as to the origin, sponsorship or approval of his or her goods by another person.” *Id.*

requesting preliminary relief.²⁸ Where the “status quo” is altered rather than maintained, or the preliminary injunction in fact provides the whole of the relief sought in litigation, the standard of mere likelihood of success on the merits is raised to “clear” or “substantial.”²⁹ Plaintiffs should note that delaying the request for equitable relief suggests that harm is not necessarily irreparable, threatening the likelihood the motion will be denied.³⁰

IV. WHERE LOST: PLAINTIFF EMPLOYER CAUSES OF ACTION

Employers who are harmed by the loss of trade secret information can seek a variety of damages or equitable relief.³¹ Damages sought may include lost profits, liquidated damages, recovery of incurred expenses, and perhaps also disgorgement.³² Equitable relief sought includes a motion for a preliminary injunction restraining the employee from pursuing a specific type of work, or client, or employer.³³

Although a **duty of loyalty** of general employees has often been argued as implied in the employer-employee relationship,³⁴ New York courts have frequently criticized this as a basis for plaintiff employer actions.³⁵ These criticisms diminish in light of bad faith, fraud, or unfair

²⁸ *Krispy Kreme Doughnut Corp. v. Satellite Donuts, LLC*, 725 F. Supp.2d 389, 393 (S.D.N.Y. 2010) (citing *Citigroup Global Mkts, Inc. v. VCG Special Opportunities Master Fund, Ltd.*, 598 F.3d 30, 35 (2d Cir. 2010)).

²⁹ *Krispy Kreme*, 725 F. Supp. at 394 (citing *Tom Doherty Assocs., Inc. v. Saban Entm’t, Inc.*, 60F.3d 27, 33-34 (2d Cir. 1995)).

³⁰ *Ivy Mar Co. v. C.R. Seasons, Ltd.*, 907 F. Supp. 547, 551 (E.D.N.Y. 1995) (citing *Citibank, N.A. v. Citytrust*, 756 F.2d 273 (2d Cir. 1985); *Lanvin Inc. v. Colonia, Inc.*, 739 F. Supp. 182 (S.D.N.Y. 1990); *Century, N.A. v. Citytrust*, 756 F.2d 273 (S.D.N.Y. 1990); *The Comic Strip v. Fox Television Stations, Inc.*, 710 F. Supp. 976 (S.D.N.Y. 1989); *Gillette Co. v. Ed Pinaud, Inc.*, 178 F. Supp. 618 (S.D.N.Y. 1989); *Tough Traveler, Ltd. v. Outbound Prods.*, 60 F.3d 964 (2d Cir. 1995)).

³¹ Brian Himmel, *Remedies Available in Pennsylvania for Restrictive Covenant and Trade Secret Violations*, 74 PA Bar Assn. Quarterly 67 (2003).

³² *Id.*

³³ *Id.*

³⁴ *Doubleclick Inc. v. Henderson*, 1997 N.Y. Misc. LEXIS 577 at 12 (citing *Support Systems Assocs., Inc. v. Tavolacci*, 135 A.D.2d 704, 706); *People’s Coat, Apron & Towel Supply Co. v. Light*, 171 A.D. 671, 673 (Supreme Court of New York, Appellate Division, 2d Dept. Jan. 14, 1916) (competing and subsequent employer could not use the knowledge of the new employee of the competing former employer’s customers as a means of competition)).

³⁵ *Abdallah v. Crandall*, 273 A.D. 131, 134 (citing *Peerless Pattern Co. v. Pictorial Review Co.*, 147 App. Div. 715; *Boosing v. Dorman*, 148 App. Div. 824; *Scott & Co. Inc. v. Scott*, 186 App. Div. 518, 524).

business practices, however.³⁶ Further, where a high-level employee is involved, an argument for **breached fiduciary duty** of the former employee can be alleged, which in turn creates a potential claim against the employee's new employer of **inducement of breach of fiduciary duty**³⁷ and aiding and abetting the breach.³⁸

Claims of **unfair competition** could also be made against the former employee.³⁹ Although bad faith is suggested by nature of the claim, misappropriation and improper use of another's trade secret has provided the basis for the claim in New York.⁴⁰

Where a restrictive covenant has been explicitly provided for in an employment or severance agreement, plaintiff employer can pursue a **breach of contract** claim.⁴¹ Where an employment or severance agreement exists, but does not necessarily contain an explicit restrictive covenant, a

³⁶ *Goldberg v. Goldberg*, 205 A.D. 435 (N.Y. App. Div. 1923) (discussing *People's Coat*, 171 A.D. 671).

³⁷ *Shaw Creations Inc., v. Galleria Enterprises, Inc.*, 29 Misc.3d 1213(A) (Supreme Ct. of New York, New York County Oct. 12, 2010) (also claiming breach of the duty of loyalty (citing *Kaufman v. Cohen*, 307 A.D.2d 113 (N.Y. App. Div. 1st Dept. 2003))). *See also* *1-800 Postcards v. AD Die Cutting & Finishing Inc.*, 2010 NY Slip Op 51368U (Sup. Ct. of New York, New York County July 9, 2010) (fraudulent inducement).

³⁸ *Shaw*, 29 Misc.3d 1213(A) (2010) (A claim for aiding and abetting a breach of fiduciary duty requires: (1) a breach of fiduciary duties, (2) that the defendant knowingly induced or participated in, and (3) that plaintiff suffered damage as a result of the breach); *Kaufman*, 307 A.D.2d at 25-26 (citing *S&K Sales Co. v Nike, Inc.*, 816 F.2d 843, 847-48 (2d Cir. 1987); *Whitney v. Citibank, N.A.*, 782 F.2d 1106, 1115 (2d Cir. 1986) (Knowing inducements requires the provision of "substantial assistance" to the violator)); *Kaufman*, 307 A.D.2d at 27-28 (citing *King v. George Schonberg & Co.*, 233 A.D.2d 242, 243; *National Westminster Bank USA v. Weksel*, 124 A.D.2d 144, 148-149 (1987) ("Substantial assistance" is then defined as enabling the breach via affirmative acts that assist, help conceal, or the failure to act when required to do so)); *Kaufman*, 307 A.D.2d at 28 (citing *Kolbeck v. LIT Am. Inc.*, 939 F. Supp. at 247 (Mere inaction of abettor satisfies the "substantial assistance" standard only where the defendant also owes a fiduciary duty to the plaintiff)); *Kaufman*, 307 A.D.2d at 28 (citing *In re Sharp Int'l Corp.*, 281 BR at 516). (*Relatedly* NY does not recognize civil conspiracy to commit a tort as an independent cause of action. *Clean Earth Holdings, Inc. v. Kopenhagen*, 2010 NY Slip Op 31029U at 23 (citing *Steier v. Shoshana Kraushar Schreiber*, 25 AD3d 519) (N.Y. App. Div. 1st Dept. 2006)). "Allegations of conspiracy are permitted only to connect the actions of separate defendants with an otherwise actionable tort." *Clean Earth Holdings*, 2010 NY Slip Op 31029U at 23 (citing *Alexander & Alexander, Inc. v. Fritzen*, 68 NY2d 968 (1986)). "The gravamen of the conspiracy is the underlying wrong and the resultant injury." *Clean Earth Holdings*, 2010 NY Slip Op 310290 at 23 (citing *McGill v. Parker*, 179 AD2d 98 (N.Y. App. Div. 1st Dept. 1992)).

³⁹ *Metito v. General Electric Co.*, 2009 U.S. Dist. LEXIS 12590 at 37-38 (citing *Berman v. Sugo LLC*, 580 F. Supp. 2d 191, 208 (S.D.N.Y. 2008); *Elite Technology v. Tin Hung Cheung*, 2009 NY Slip Op 30335U at 5; (Supreme Court of New York, New York County Feb. 11, 2009 (citing *Louis Capital Markets, L.P. v. REFCO Group Ltd., LLC*, 9 Misc.3d 283, 289 (Sup. Ct. New York Co. 2005))).

⁴⁰ *Metito*, 2009 U.S. Dist. LEXIS 12590 at 38 (citing *Berman v. Sugo LLC*, 580 F. Supp. 2d 191, 209 (S.D.N.Y. 2008)).

⁴¹ *Clean Earth Holdings*, 2010 NY Slip Op 31029U; *Payment Alliance International, Inc. v. Ferreira*, 530 F. Supp.2d 477 (S.D.N.Y. 2007).

claim for **breach of the covenant of good faith and fair dealing** might be made.⁴² All New York contracts imply a covenant of good faith and fair dealing,⁴³ “embrac[ing] a pledge that neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract.”⁴⁴

A plaintiff employer may also investigate filing tort claims against defendant employee and, where applicable, the defendant employee’s new employer. **Tortious interference with contract exists** where: (1) there was a contract between plaintiff and a third party, (2) defendant knew this, but (3) defendant “procured” the breach of that contract, which (4) damaged plaintiff.⁴⁵ Proximate cause must be established; that but-for the defendant, the breach of contract would not have occurred.⁴⁶ A claim may also exist for tortious interference with economic relations.⁴⁷ A successful claim for **tortious interference with economic relations** requires that: (1) plaintiff had business relations with a third party and (2) the defendant interfered in those relations (3) for a “wrongful purpose or used dishonest, unfair or improper means” and (4) those actions injured plaintiff’s relationship.⁴⁸ The moving party must “demonstrate both wrongful means and that the wrongful acts were the proximate cause” of the terminated economic relations.⁴⁹ The element test for a claim for **tortious interference with**

⁴² *Clean Earth*, 2010 NY Slip Op 31029U at 14-16 (citing *Engelhard Corp. v. Research Corp.*, 268 AD.2d 358 (N.Y. App. Div. 2000)).

⁴³ *Id.* at 14-16 (citing 511 W. 232nd *Owners Corp. v. Jennifer Realty Co.*, 98 N.Y.2d 144, 153 (2002)).

⁴⁴ *Id.* at 14-16 (citing *Dalton v. Educ. Testing Serv.*, 87 NY2d 384, 389 (1995)).

⁴⁵ *Meitito*, 2009 U.S. Dist. LEXIS 12590 at 20 (citing *White Plains Coat & Apron Co., Inc. v. Cintas Corp.*, 460 F.3d 281, 285 (2006) (Tortious interference with existing business relationships differs only slightly in that defendant’s intentional procurement of the breach was without “justification” *Elite Technology*, 2009 NY Slip Op 30335U at 6 (citing *Constantin Assocs. V. Kapetas*, 2007 N.Y. Slip Op. 52320U at 2)).

⁴⁶ *Id.* at 20 (citing *Cantor Fitzgerald Assocs. V. Tradition N. Am.*, 299 A.D.2d 204, (N.Y. App. Div. 2002)).

⁴⁷ *Id.* at 21.

⁴⁸ *Id.* at 28 (citing *Catskill Dev., L.L.C. v. Park Place Entm’t Corp.*, 547 F.3d 115, 132 (2d Cir. 2008)).

⁴⁹ *Id.* at 28-29 (citing *State Street Bank & Trust Co. v. Inversiones Errazuriz Limitada*, 374 F.3d 158, 172 (2d Cir. 2004)).

prospective economic advantage differs only slightly in that it is not an existing business relationship but a potential one.⁵⁰

Misappropriation of a trade secret, however, is the claim most frequently used by moving parties to try and protect their trade secrets. In New York, a successful claim for the misappropriation of trade secrets must demonstrate that the moving party in fact had a trade secret and that the defending party used that trade secret “in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means.”⁵¹ In limited circumstances, the **doctrine of inevitable disclosure** operates as a substitute for evidence of actual disclosure.⁵² The doctrine is disfavored, however.⁵³

The three factor test for whether inevitable disclosure doctrine is one that can be relied on in a court includes: are the employers competing with each other for similar or identical products or services; are the former and new employee positions near identical, such that it would be impossible for him to perform his new position without relying on trade secrets from his former position; and the trade secrets are valuable to both the plaintiff and new employer?⁵⁴ Informing this element test are considerations such as the nature of the industry and of the trade secrets, and the balancing act courts make between protecting an individual employer’s trade secret at the cost of broader public policy concerns regarding restraint of trade.⁵⁵ The New York Appellate Division has reinforced the idea that absent evidence of an actual misappropriation, the doctrine effectively implies a restrictive covenant and should be used in only the rarest circumstances.⁵⁶

⁵⁰ *Elite Technology*, 2009 NY Slip Op 30335U at 6 (citing *Constantin Assocs.*, 2007 N.Y. Slip Op. 52320U at 2).

⁵¹ *Metito*, 2009 U.S. Dist. LEXIS 12590 at 32 (S.D.N.Y. 2009) (citing *North Atlantic Instruments, Inc.*, 188 F.3d at 43-44).

⁵² *Id.* at 33 (citing *IBM*, 2008 U.S. Dist. LEXIS 99516).

⁵³ *Id.* at 33 (citing *Earthweb Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999)).

⁵⁴ *Earthweb Inc.* 71 F. Supp. 2d at 310.

⁵⁵ *Id.* at 311.

⁵⁶ *Marietta*, 301 A.D.2d 734.

These issues were explored in the case *IBM v. Papermaster*.⁵⁷ There the Southern District Court of New York granted a preliminary injunction to an employer whose former employee departed and began work for a competitor.⁵⁸ Plaintiff employer alleged breach of contract and misappropriation of trade secrets.⁵⁹ The Court approved a motion for a preliminary injunction⁶⁰ where the defendant employee had worked for plaintiff for twenty-six years,⁶¹ had spent considerable time in a key employer department, and the last two years of employment had been in developing a specific competitive product.⁶² Defendant had also signed a non-compete agreement and non-solicitation agreement.⁶³

Establishing that plaintiff's information was in fact a trade secret,⁶⁴ the Court investigated whether the information had been misappropriated or whether this was an instance that the risk of inevitable disclosure was so great that a preliminary injunction was warranted.⁶⁵ Turning to assess the standards for granting a preliminary injunction, the Court considered whether irreparable harm would occur without the injunction, the likelihood of success in the matter, or where questions remained to be resolved, that the moving party had the "balance of hardships

⁵⁷ *IBM*, 2008 U.S. Dist. LEXIS 99516.

⁵⁸ *Id.*

⁵⁹ *Id.* at 1.

⁶⁰ *Id.* at 2. In response to this decision defendant appealed to the Second Circuit for an expedited appeal. Gary Glazer, *Update on Developments in IBM v. Papermaster "Inevitable Disclosure" Case*, TRADING SECRETS (Jan. 21, 2009), <http://www.tradesecretslaw.com/2009/01/articles/trade-secrets/update-on-developments-in-ibm-v-papermaster-inevitable-disclosure-case/> (That appeal was denied on December 8, 2008); *Id.* (IBM was instructed to pay defendant \$3,000,000 in bond to satisfy any defendant damages defendant would incur during the injunction) Filip Truta, *IBM Forced to Pay \$3 Million to Ex-Staffer*, SOFTPEDIA (Nov. 17, 2008), <http://news.softpedia.com/news/IBM-Forced-to-Pay-3-Million-to-Ex-Staffer-Papermaster-Apple-Case-98026.shtml> (Defendant and his new employer countersued indicating a new confidentiality agreement prohibiting disclosure of his former employer's confidential information); *Id.* (On January 27, 2009 a settlement was announced that defendant would resume employment at Apple); , *Mark Papermaster to Begin at Apple as Senior Vice President of Devices Hardware Engineering*, APPLE (Jan. 27, 2009), <http://www.apple.com/pr/library/2009/01/27papermaster.html> (Defendant was subject to future court certifications that he would protect IBM trade secrets); Tim Beyers, *Big Blue is Watching You, Apple*, THE MOTLEY FOOL (Jan. 30, 2009), <http://www.fool.com/investing/general/2009/01/30/big-blue-is-watching-you-apple.aspx>.

⁶¹ *IBM*, 2008 U.S. Dist. LEXIS 95516 at 5.

⁶² *Id.* at 7.

⁶³ *Id.* at 9-12.

⁶⁴ *Id.* at 21-22.

⁶⁵ *Id.* at 23 (citing *Payment Alliance Int'l*, 530 F. Supp. 2d at 482).

tipping decidedly in its favor.”⁶⁶ The Court defined irreparable harm as “actual and imminent and [not] remedied by an award of monetary damages.”⁶⁷

Applying this standard to the matter, the Court found defendant has been exposed to employer’s “most sensitive and closely-guarded technical and strategic secrets,”⁶⁸ and that the defendant was hired by the new employer to improve a competitive product, necessarily warranting that defendant would have to use plaintiff’s trade secrets to perform his new duties.⁶⁹ Intent to disclose was irrelevant⁷⁰ and the Court considered the potential harm “unquantifiable.”⁷¹ The court ultimately found the circumstances portrayed an inevitable disclosure of plaintiff’s trade secret information, which was sufficient to satisfy the irreparable harm standard for a preliminary injunction.⁷²

The Court in IBM considered the circumstances of an employee competing with his former employer, where the impetus was the misappropriation of trade secrets or a restrictive covenant prohibiting such, to have a less stringent “approach” to the irreparable harm inquiry, presuming the injury.⁷³ Other courts also presume irreparable harm exists where trade secrets have been misappropriated,⁷⁴ but this has not been a matter dealt with by higher courts of New York

⁶⁶ *Id.* at 19 (citing *Lusk v. Vill. Of Cold Spring*, 475 F.3d 480, 485 (2d Cir. 2007)).

⁶⁷ *Id.* at 19 (citing *Estee Lauder Cos. v. Batra*, 430 F. Supp. 2d 158, 174 (S.D.N.Y. 2006); *Johnson Controls, Inc. v. A.P.T. Critical Sys., Inc.*, 323 F. Supp. 2d 525, 531 (S.D.N.Y. 2004)).

⁶⁸ *Id.* at 25.

⁶⁹ *Id.* at 27-28.

⁷⁰ *Id.* at 34-35 (citing *Verizon Commc’ns Inc. v. Pizzirani*, 462 F. Supp. 2d 648, 659 (E.D. Pa. 2006) (“even if [the defendant] acted with the best of intentions, he [might] unintentionally transmit information gained through his [formerly employer] during his day to day contact with his new employer”).

⁷¹ *Id.* at 28.

⁷² *Id.* at 10. (Followed by *IBM Corp. v. Johnson*, 629 F. Supp. 2d 321, 335 (S.D.N.Y. 2009)).

⁷³ *Id.* at 24 (citing *Innoviant Pharmacy, Inc. v. Morganstern*, 390 F. Supp. 2d 179, 188-189 (N.D.N.Y. 2005)).

⁷⁴ *Sys. Mgmt. Planning, Inc. v. Gordon*, 2009 NY Slip Op 50575U at 2 (citing plaintiff’s use of *Doublecheck Inc.*, 1997 WL 73 at 1413. (accord *L-3 Communications Corp. v. Kelly*, 10 Misc. 3d 1055(A) (Sup. Ct. Suffolk Co. 2005). *aff’d on other gr.*, 36 A.D.3d 762 (N.Y. App. Div. 2007))); *Sylmark Holdings Ltd. V. Silicon Zone Int’l Ltd.*, 5 Misc. 3d 285, 299 (Compare with *U.S. Re. Companies, Inc. v. Scheerer*, 41 A.D.3d 152, 155 (N.Y. App. Div. 2007) (dicta discussion that even if a confidentiality agreement breach and a misappropriation of trade secret data was shown, money damages were sufficient to redress the wrong)).

State.⁷⁵ The Second Circuit has case law with the presumption,⁷⁶ although a subsequent Court of Appeals ruling modified the presumption.⁷⁷ The Court of Appeals was clear that such presumption was “warranted in cases where there is a danger that, unless enjoined, a misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets.”⁷⁸ Where the employee is only using the trade secrets for profit – without communicating the secrets to third parties or impairing the value of the trade secret - the harm is quantifiable and therefore money damages are the more appropriate remedy.⁷⁹

Inevitable disclosure has also been considered in the context of a defendant motion for summary judgment.⁸⁰ The plaintiff there alleged misappropriation of trade secrets against defendant who was formerly a low-level employee.⁸¹ In considering the motion, the court considered whether the employee had in fact disclosed the secret.⁸² There was no evidence on record of such disclosure, and the Court considered whether the doctrine of inevitable disclosure was appropriate.⁸³ The Court found the doctrine useful in only the “rarest” cases,⁸⁴ and not applicable to the matter before it because of its exclusive use in case law for matters of preliminary injunctions and because the doctrine involved “high-level executives or persons in managerial positions.”⁸⁵ Further, the Court found that the employment contract signed by defendant contained a confidentiality provision that employee reaffirmed upon departure, both

⁷⁵ *Sys. Mgmt Planning*, 2009 NY Slip Op 50575U at 1.

⁷⁶ *Id.* at 1 (citing *Ivy Mar Co. v. C.R. Seasons, Ltd.*, 907 F. Supp. 547, 567 (E.D.N.Y. 1995)).

⁷⁷ *Id.* at 1 (citing *Faiveley Transport*, 559 F.3d at 110).

⁷⁸ *Id.* at 2 (citing *Faiveley Transport*, 59 F.3d 110 at 110).

⁷⁹ *Id.* at 2 (citing *Geritrex Corp. v. Drmarite Indus., LLC*, 910 F. Supp. 955, 966 (S.D.N.Y. 1996)).

⁸⁰ *Metito*, 2009 U.S. Dist. LEXIS 12590 at 32-37.

⁸¹ *Id.* at 32.

⁸² *Id.* at 32-33.

⁸³ *Id.* at 12590 at 33-37 (citing *IBM*, 2008 U.S. Dist. LEXIS 95516).

⁸⁴ *Id.* at 33 (citing *Earthweb*, 71 F. Supp. 2d 299 at 310).

⁸⁵ *Id.* at 34-35 (citing *PepsiCo*, 54 F.3d at 1264; *IBM*, 2008 U.S. Dist. LEXIS 95516).

acts suggesting that the disclosure was in fact not inevitable.⁸⁶ The Court found that if the doctrine were to be used in a summary judgment proceeding that plaintiff would have to “show that disclosure [was] truly inevitable.”⁸⁷

V. CONCLUSION

Although the future loss of key employees is not something any employer can altogether prevent, there are means that employers can use to mitigate the potential loss of competitive advantage that comes with such employee departure. These means include: the use of reasonably tailored restrictive covenants in employment and severance agreements; the careful identification and protection of trade-secret identified information; and quick legal action in the instance an employee is lost and trade secret information is misused.

⁸⁶ *Id.* at 35-36.

⁸⁷ *Id.* at 34.