

Web Site Story 6 – Breakaway Employees Beware

by David Rabinowitz

The Internet, while a new medium, is subject to the same laws as older businesses. This means that employees leaving one Internet-related business to start or work for another risk being hampered—not helped—by their knowledge accumulated in the business of their old employer. As in old gangster movies, it is sometimes inconvenient to know too much.

In *DoubleClick Inc. v. Henderson*, Justice De Grasse of the New York County Supreme Court granted a preliminary injunction barring two former employees of an Internet advertising business from launching or working for a competitor in an Internet advertising capacity for six months after the Court's decision. The two employees were fired when Doubleclick found out that they were planning to start their own, competitive venture.

The Court restrained the employees from competing because, they would likely use Doubleclick's trade secrets to compete with it. The Court cited activities in behalf of the new business using Doubleclick's resources and on company time as other misbehavior of the defendants, but it is fair to say that the trade secret usage was the core of the decision to put the employees out of business for six months.

What makes the case interesting is the Court's reliance on some apparent use of Doubleclick's trade secrets and, more important, its invocation of the "inevitable disclosure" doctrine of trade secret protection. Most important is the fact that the Court placed no weight on the employees' confidentiality and non-competition agreements, basing its decision instead on trade secret law applicable with or without agreements.

The trade secrets that the employees used in planning their own business were rates charged advertisers, the percentages by which Doubleclick divided its advertising revenue with the web sites, and the number of hits to each website and sales for each site. However, these were not the only trade secrets that the Court cited as protectable; the Court referred generally to "revenue projections, plans for future products, pricing and product strategies, and databases containing information collected by Doubleclick concerning its clients." This shows the great breadth of information that courts will protect as trade secrets.

This is not the first case to restrict employees from taking new jobs because they will "inevitably disclose" (or use) their former employer's trade secrets. This doctrine has been commonly seen in recent years, particularly on applications for preliminary injunctions, in cases where employers seek to prevent former employees from going to work for competitors. It has been applied to protect trade secrets of several kinds, including technology, marketing plans, and client information, and there is no reason that it could not be applied to all trade secrets.

The federal appeals court cases that have applied the doctrine have applied it in cases concerning marketing information. In two cases in 1995, one in the Seventh Circuit and one in the First Circuit, federal appeals courts recognized the doctrine, one finding that plaintiff had proved facts making it applicable, the other finding a failure of proof. The First Circuit case refused to apply the doctrine, scrutinizing the alleged trade secrets carefully and finding that many of them (concerning marketing information) were no longer secret, having been disclosed to customers, and also finding that the employee's role as a plan implementer rather than developer, minimized the likelihood that he would "inevitably" disclose the secrets. Many cases, however, have not been as exacting in assessing the secrecy or importance of the trade secrets or in weighing the likelihood of their disclosure. In a 1996 case in Connecticut, the federal district court enjoined an engineer who had worked on ultrasonic plastic from taking a job working on ultrasonic metal welding. Similar results have been reached concerning a product manager for fitness machines, a plastic container engineer, and a software developer, installer and client liaison.

On the other hand, it should be noted that this doctrine is one of state law, and results can therefore vary from state to state. In a 1996 federal case in North Carolina, state law disfavoring non-competition covenants against employees was applied to limit the remedy of the former employer to preventing the employee from working on the new employer's directly competing product. In similar cases under the law of other states, the employee was forbidden from working at the new job altogether.

This developing line of cases is exceedingly important, especially in states like New York that otherwise strongly disfavor covenants against former employees' plying their trade in competition with their former employer. The

broad sweep of trade secret law now makes almost any move to a competitor in a similar job position suspect. The former employer typically needs only to show access by the employee to trade secrets and their likely usefulness—not necessarily their use or disclosure by the employee—to have a reasonable chance for a preliminary injunction. By this means, the public policy against employee non-competition clauses can be legally nullified.

The news for employers is good: by taking the normal steps to protect trade secrets, key employees can be prevented from doing competitive damage immediately upon their departure. For employees, the *Doubleclick* decision is a worrisome extension of the inevitable disclosure doctrine to the Internet context; even without any intent to use trade secrets, an employee can be bumped out of the job for which he is best suited, although for a limited period. At some point the courts, if not the legislatures, will put limits on the inevitable disclosure doctrine, but that time has not yet come.

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