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Expert Analysis

'Papermaster' Could Further Expand Use of Inevitable Disclosure Doctrine

In the realm of litigation pitting employer versus former employee concerning claims that the former employee violated non-competition agreements and/or misappropriated the employer's confidential and proprietary information, a recent decision of the U.S. District Court in the Southern District of New York, *International Business Machines Corporation v. Papermaster,* No. 08-CV-9078 (KMK), 2008 WL 4974508, 2008 U.S. Dist. LEXIS 95516 (S.D.N.Y. Nov. 21, 2008), appears to have breathed new life into the "inevitable disclosure" doctrine, apparently easing the burden of proof that an employer must satisfy in order to show the irreparable harm necessary for a court to grant an injunction preventing the former employee from working for a competitor.

Definition of the Doctrine

Under the inevitable disclosure doctrine, certain employees cannot "wipe clean" their knowledge of their former employers' trade secrets. Despite an employee's best efforts to avoid disclosing any trade secrets to the new employer, the employee will inevitably disclose trade secrets simply by virtue of the employment, and therefore should be enjoined from working for the new employer for some period of time, even in the absence of any non-compete agreement.

The doctrine of inevitable disclosure provides a possible source of relief against improper competition by former employees even where the employer cannot show actual misuse, or intent to misuse, confidential or trade secret information. *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460-65 (M.D.N.C. 1996) (crafting narrow injunction based on inevitability of disclosure, despite absence of non-competition agreement, where concerns existed regarding ex-employee's candor).

The inevitable disclosure doctrine has existed for decades,[1] but has achieved greater prominence in the last 15 years or so, as companies have raided their competitors more frequently.

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By
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A leading case supporting the inevitable disclosure doctrine is *PepsiCo Inc. v. Redmond,* 54 F.3d 1262 (7th Cir. 1995). A marketing executive left PepsiCo and went to Quaker Oats. PepsiCo manufactured a sports drink called "All Sport" and Quaker Oats manufactured "Gatorade." Redmond had knowledge of PepsiCo's strategic plans, pricing structures, attack plans for specific markets and selling and delivery systems. PepsiCo sought a preliminary injunction preventing Redmond and Quaker Oats from divulging trade secrets and confidential information. The district court, upheld on appeal, concluded that Redmond would inevitably disclose a trade secret, finding that "unless Redmond possessed an uncanny ability to compartmentalize information," he would necessarily be making decisions about Gatorade and Snapple by relying on PepsiCo's trade secrets, including the "particularized plans or processes developed by [PepsiCo] and disclosed to him while the employer-employee relationship existed, which are unknown to others in the industry and which give the employer an advantage over his competitors." Id. at 1269 (citation omitted).

Although the acceptance of the inevitable disclosure doctrine has been somewhat widespread as of late, many jurisdictions still either have not yet accepted or have outright rejected it as against public policy. For example, in September 2002, the California Court of Appeals rejected the doctrine as "contrary to California law and policy because it creates an after-the-fact covenant not to compete restricting employee mobility." *Whyte v. Schlage Lock Co.,* 125 Cal. Rptr. 2d 277, 101 Cal. App. 4th 1443 (Cal. App. 4 Dist. Sept. 12, 2002). See also *LeJeune v. Coin Acceptors Inc.*, 849 A.2d 451 (Md. 2004); *Safety-Kleen Systems Inc. v. McGinn*, 233 F. Supp. 2d 121, 124 (D. Mass. 2002); *Del Monte Fresh Produce Co. v. Dole Food Co. Inc.,* 148 F. Supp. 2d 1326 (S.D. Fla. 2001); *Bridgestone/Firestone Inc. v. Lockhart,* 5 F. Supp. 2d 667, 682 (S.D. Ind. 1998).

Inevitable Disclosure

State and federal courts in New York traditionally have applied the inevitable disclosure doctrine only in rare situations where the defendant employees occupied high level positions with their former employers and had access to trade secret information, among other factors. See *Willis of New York Inc. v. DeFelice,* 299 A.D.2d 240, 750 N.Y.S.2d 39 (1st Dep't 2002) (applying inevitable disclosure doctrine only to high level employees); *EarthWeb Inc. v. Schlack,* 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999), aff'd in part, 205 F.3d 1322, 200 WL 232057 (2d Cir. 2000).

In deciding whether to apply the inevitable disclosure doctrine, New York courts will consider whether (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. *Marietta Corp. v. Fairhurst,* 301 A.D.2d 734, 754 N.Y.S.2d 62, 66 (3d Dep't 2003).

Whether the information claimed to be confidential and proprietary rises to the level of a trade secret depends on an analysis under Restatement of Torts §757, cmt. b (1939), and mere knowledge of the intricacies of a business is not enough. *Marietta Corp.*, 754 N.Y.S.2d at 66-67; *Spinal Dimensions Inc. v. Chepenuk,* 16 Misc.3d 1121(A), 847 N.Y.S.2d 905, 2007 WL 2296503 (Sup. Ct. Albany County Aug. 9, 2007) (declining to apply doctrine where plaintiff did not show information constituted trade secret).

Where an individual defendant is not bound by any non-compete agreement, New York courts have held the inevitable disclosure doctrine to be disfavored, and will apply it to prevent employment with a competitor only where there is evidence of actual misappropriation by the individual employee. *Marietta Corp.*, 754 N.Y.S.2d at 65-66. See *Doubleclick Inc. v. Henderson,* No. 116914/97, 1997 WL 731413, *5 (Sup. Ct. N.Y. County Nov. 7, 1997) (enjoining defendants from launching their company or working for a competitor for six months based on evidence of actual misappropriation of trade secrets, bolstered by high probability of inevitable disclosure).

Where the inevitable disclosure doctrine is argued as a basis for enforcing a restrictive covenant, however, a number of cases, principally from federal district courts applying New York law, have granted such injunctive relief preventing employment with a competitor without presentation of evidence of actual misappropriation. *Payment Alliance International Inc. v. Ferreira,* 530 F. Supp. 2d 477 (S.D.N.Y. 2007); *Estee Lauder Co. Inc. v. Batra*, 430 F. Supp. 2d 158 (S.D.N.Y. 2006); *Lumex Inc. v. Highsmith*, 919 F. Supp. 624 (E.D.N.Y. 1996). But see *International Paper Co. v. Suwyn,* 966 F. Supp. 246, 258 (S.D.N.Y. 1997) (remarking that the inevitable disclosure line of decisions is narrow and not inconsistent with the general proposition that plaintiff must show irreparable harm before injunctive relief will lie).

'IBM v. Papermaster'

The recent *IBM v. Papermaster* decision from the Southern District seems to go even farther than the *Ferreira, Batra,* and *Lumex* cases, not only granting injunctive relief to IBM preventing Mark D. Papermaster's employment with a competitor without IBM presenting evidence of actual misappropriation. The court based its finding of irreparable harm largely upon the probability of "inadvertent" disclosure by Mr. Papermaster and Mr. Papermaster's acknowledgement in his employment agreement with IBM that IBM would suffer irreparable harm were he to breach the agreement's non-competition provision.

This seems a surprisingly low threshold for applying the inevitable disclosure doctrine to find irreparable harm in the absence of any evidence of misuse or even misappropriation of confidential information and/or trade secrets.

Before resigning from IBM in October 2008, Mr. Papermaster worked at IBM for 26 years in various product design and development roles. From 1991 through 2006, he worked in microprocessor technology development, including on IBM's "Power" architecture, which is one of a handful of architectures used to design, develop and manufacture microprocessors for both large and small electronic devices.

In 2006, Mr. Papermaster was selected to be a member of the Integration & Values Team at IBM, an elite group of about 300 top executives that develops IBM's corporate strategy. In connection with his promotion to the values team Mr. Papermaster signed a noncompetition agreement with IBM, which provided, among other things, that he could not, for one year after termination of his employment, "directly or indirectly within the 'Restricted Area' (I) 'Engage in or Associate with' (a) any 'Business Enterprise' or (b) any significant competitor or major competitor of the Company," and the quoted terms were defined in the noncompetition agreement.

In April 2008, Apple acquired P.A. Semi, a microchip design company in California with which IBM competes in the microprocessor field. Apple contemplated using P.A. Semi's microprocessors in lieu of those of IBM. Apple's CEO, Steven Jobs, commented that P.A. Semi would be used to build chips for Apple's iPhones and iPods, products crucial to Apple's bottom line.

Apple interviewed Mr. Papermaster and offered him the position of senior vice president, device hardware engineering. On Oct. 15, 2008, Mr. Papermaster signed an employment agreement with Apple, and also executed Apple's intellectual property agreement, which acknowledged his agreement not to use or disclose to Apple any confidential, proprietary or secret information of his previous employers.

Mr. Papermaster's last day of employment with IBM was Oct. 24, and he began working at Apple on Nov. 3, 2008. IBM sought a preliminary injunction and in its Nov. 21, 2008 decision, the district court enjoined Mr. Papermaster from working for or with Apple until further order of the court.

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The decision was remarkable for the manner in which it found that IBM had satisfied the irreparable harm prong of the three-part standard for injunctive relief (irreparable harm, likelihood of success on the merits or sufficiently serious questions on the merits, and a balance of hardships tipping decidedly in favor of the movant). Some excerpts from the decision follow:

> Because Mr. Papermaster has been inculcated with some of IBM's most sensitive and closely-guarded technical and strategic secrets, it is no great leap for the Court to find that Plaintiff has met its burden of showing a likelihood of irreparable harm.
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> [I]t is likely that Mr. Papermaster inevitably will draw upon his experience and expertise in microprocessors and the "Power" architecture, which he gained from his many years at IBM, and which Apple found so impressive, to make sure that the iPod and iPhone are fitted with the best available microprocessor technology and at a lower cost.
> Two other facts make the likelihood of irreparable harm to IBM more than mere speculation. First, Mr. Papermaster has acknowledged that IBM would suffer "irreparable harm" if he violated the Noncompetition Agreement.
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> While there is "no authority indicating that such a contract provision entitles a plaintiff to a per se finding of irreparable harm," *[Int'l Creative Mgmt. Inc. v. Abate,* No. 07-CV-1979, 2007 WL 950092, at *6 (S.D.N.Y. Mar. 28, 2007)] "the explicit provision in the agreement" and "common sense" indicate that IBM will be irreparably harmed by the disclosure of the important technical and proprietary information that Mr. Papermaster carries in his head. *Global Telesys. Inc. v. KPNQwest, N.V.*, 151 F. Supp. 2d 478, 482 (S.D.N.Y. 2001).
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> The second critical fact that underscores the likely threat to IBM from Mr. Papermaster's new job is Apple's purchase of P.A. Semi [...] subsequent to its initial decision not to hire Mr. Papermaster to run the iPod/iPhone Division. [...] Several months thereafter, Apple, for reasons that Mr. Papermaster has not explained, changed its mind about Mr. Papermaster's credentials and hired him to run the iPod/iPhone Division.
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> [T]he Court has no evidence before it that Mr. Papermaster has disclosed any IBM trade secrets that have defined Mr. Papermaster's long career. The harm to IBM, however, is more likely to derive from inadvertent disclosure of the IBM trade secrets that have defined Mr. Papermaster's long career. Put another way, what other base of technical know-how could Mr. Papermaster draw upon to perform his new and important job? Thus, while the Court ascribes no ill-will to Mr. Papermaster, the Court finds that the likely inevitability of even inadvertent disclosure is sufficient to establish a real risk of irreparable harm to IBM.

International Business Machines Corporation v. Papermaster, No. 08-CV-9078 (KMK), 2008 WL 4974508, at *8-10.

The court thus held that IBM faced irreparable harm, even though there was no reason to ascribe ill-will to Mr. Papermaster or to doubt that he would abide by Apple's intellectual property agreement or otherwise to think that he would misuse or disclose IBM's trade secrets.

The court's holding that such disclosure was nonetheless inevitable rested in large part on its conclusion that inadvertent disclosure would probably occur, on the boilerplate provision in Mr. Papermaster's IBM noncompetition agreement stating that he agreed that IBM would suffer "irreparable harm" if he worked for a competitor, and on what the court termed "common sense."

Conclusion

Having relied on these factors, which may not previously have been sufficient, to find irreparable harm, the *Papermaster* decision could have the effect of further expanding the application of the inevitable disclosure doctrine. Time will tell if other courts follow the lead of *Papermaster*.

1. See *E.I. duPont de Nemours & Co. v. American Potash & Chem. Corp.*, 41 Del. Ch. 533, 200 A.2d 428 (1964); *B.F. Goodrich Co. v. Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963).