NHBR

JUNE 18 - JULY 1, 2010 NEW HAMPSHIRE BUSINESS REVIEW ■ NHBR.COM VOL. 32, NO. 12

'Inevitable disclosure' takes a hit in N.H.

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When an employee leaves to go to work for a competitor, that employee unavoidably takes knowledge gained during the employment that may be useful to his or her new employer.

Many employers use covenants not to compete and/or nondisclosure agreements to help protect valuable proprietary information. Such agreements, however, are not uniformly enforceable in other parts of the country (for example, California prohibits covenants not to compete). Even in New Hampshire, covenants not to compete are subject to careful judicial scrutiny due to New Hampshire's public policy favoring employee mobility.

Until recently, even if an employer had not negotiated a covenant not to compete, it could consider bringing a legal action against its former employee invoking the controversial "inevitable disclosure" doctrine in order to secure an injunction preventing the employee from going to work for a competitor.

But a February 2010 decision issued by Judge Richard B. McNamara of New Hampshire's newly created Business Court may make it more difficult for employers to restrict their former employees' mobility in this after-the-fact manner.

The "inevitable disclosure" doctrine, which is closely tied to trade secret law, effectively permits an employer to impose on its former employee a non-negotiated and after-the-fact covenant not to compete even when there is no actual or threatened disclosure of trade secrets.

The doctrine rests on the justification that unless the employee has an uncanny ability to compartmentalize information learned during his earlier employment, that employee will likely, and inevitably, rely upon his former employer's trade secrets in performing his new job.

Thus, courts applying this doctrine have been willing — even in the absence of a restrictive covenant — to issue injunctions preventing employment when: the former and new employers are direct competitors; the employee's job is identical to the old one; there exists a clearly established trade secret; and the trade secret is valuable to both employers.

While it has been widely criticized by legal commentators and scholars as contrary to public policy favoring employee mobility, the "inevitable disclosure" doctrine has been adopted in some form by approximately 21 states. Several states — including, most notably California and Florida — have adamantly rejected the doctrine.

The New Hampshire Supreme Court has not adopted the doctrine. A September 2003 Rockingham County Superior Court decision, however, applied the disputed legal theory in a case brought by Nike Bauer Hockey Inc. to prevent one of its former employees from going to work for a competitor, Mission Hockey Inc., thus, leaving open the possibility that the doctrine may be applied in this state.

Judge McNamara's Feb. 7 order, in the case, Allot Communications Ltd. v. Cullen, raises skepticism about the continuing validity of the Bauer decision and the extent to which an employer may raise the "inevitable disclosure" of trade secrets as a basis to obtain an injunction against a former employee and his new company in this state, and particularly in the newly created Business Court.

In Allot, a broadband network optimization company incorporated and headquartered in Israel with a U.S. presence operating through a California corporation with headquarters in Woburn, Mass., brought an action against its former employee, a New Hampshire resident, invoking the "inevitable disclosure" doctrine in an effort to prohibit the former employee from continuing his employment at a competitor.

The employee had signed an employment agreement with his former employer that specified that California law applied. The agreement did not contain a covenant not to compete because such restrictions are invalid in California.

The employee defended the employer's attempts to restrict his employment by arguing that California law applied and that California has powerfully rejected the "inevitable disclosure" doctrine because it creates an after-the-fact covenant not to compete and is contrary to the strong public policy favoring employee mobility.

Judge McNamara agreed with the employee and held that California law applied. In reaching this decision, he questioned whether "the application of the inevitable disclosure doctrine is the sounder rule of law." In doing so, the judge cited two New Hampshire Supreme Court cases that highlight the state's public policy of discouraging covenants not to compete and favoring employee mobility.

In the wake of this decision, and given that the majority of trade secret and noncompete cases will likely be heard by the Business Court, the Allot decision underscores the need for companies with protectable trade secrets to revisit whether they have the policies, procedures and agreements in place to protect these intellectual assets.

As this decision implicates, efforts to impose restraints after-the-fact may be a very tough sell. NHBR

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