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Employers are increasingly concerned with losing employees to competitors, and with having their trade secrets, valuable business information, and customers leave with the employees. While several states recognize the inevitable disclosure doctrine, a new Ohio appellate court decision makes clear that the doctrine may not help employers who have lost employees to competitors if the company does not move quickly to respond to the threat, if the company does not carefully maintain the confidentiality of trade secrets and other confidential information, or if the company seeks to protect general industry information as opposed to specific confidential information.

Midwest Edition

A Littler Mendelson Midwest-specific Newsletter

Competition from Former Employees: Ohio Appellate Court Clarifies Application of the "Inevitable Disclosure" Doctrine

By Thomas M. L. Metzger and Brooke E. Niedecken

A recent court decision in Ohio provides an important new interpretation of the rights, and limitations, that employers may face when key employees leave and begin to compete. The decision also highlights several critical steps that employers should take if and when an employee leaves to compete, and when company trade secrets, other confidential information, and customers are at risk. In particular, employers must move quickly to protect against threats to their trade secrets and customer relationships, and they must take steps to carefully identify – and maintain the confidentiality of – their trade secrets and other sensitive business information.

The "Inevitable Disclosure" Doctrine

Ohio, along with several other states, recognizes what is known as the "inevitable disclosure" doctrine – and an Ohio court has recently clarified when the doctrine can and cannot be applied. As a brief summary, the inevitable disclosure doctrine is based on the idea that no matter how well-intentioned a former employee may be, there are some circumstances in which it would be impossible for the employee *not* to use or disclose the former employer's confidential information. In other words, the courts have determined that, in certain situations, it is *inevitable* that an employee will use or disclose the former employer's confidential information, particularly if he or she is performing substantially the same work for a new employer that is a direct competitor.

Consistent with this idea, some courts have concluded that a former employee may be prohibited from working with a competitor for a period of time if it is inevitable that the former employee's confidential information would be used or disclosed in the employee's new position with the competitor. More particularly, courts that have applied the inevitable disclosure doctrine typically consider whether: (1) the new employer is a direct competitor; (2) the employee's new position is nearly identical to the old one, such that the employee could not reasonably be expected to fulfill the new job responsibilities without using trade secrets or other confidential information of the former employer; and (3) the trade secrets at issue are highly valuable to both the former and the new employer.

Ohio first adopted the inevitable disclosure doctrine in 2000, in the case of *Procter & Gamble Co. v. Stoneham*. The application of the inevitable disclosure doctrine can be summarized through the facts of the case. Mr. Stoneham had been employed with Procter & Gamble Co. ("P&G") for thirteen years. During the later part of his work with P&G, Mr. Stoneham was responsible for international marketing in the company's hair care division; he focused primarily on hair-conditioning products. In his position, Mr. Stoneham had access to a variety of P&G's confidential information: global business goals and strategies related to hair care, market research results, financial data, profit projections, and research and development for new products. Additionally, he had helped develop a confidential ten-year marketing plan for one of P&G's hair conditioning products. Upon leaving P&G, Mr. Stoneham immediately accepted a position as President of Alberto-Culver International, a direct competitor in many respects to P&G.

In his new position, Mr. Stoneham would be responsible for supporting and marketing hair condition products that competed with P&G's hair care products.

P&G sought to prevent Mr. Stoneham from working with its competitor, particularly since Mr. Stoneham would be working in a position substantially similar to the position he had held with P&G. In deciding to apply the inevitable disclosure doctrine, the court stated that "an actual threat of harm exists when an employee possesses knowledge of an employer's trade secrets and begins working in a position that causes him or her to compete directly with the former employer or the product line that the employee formerly supported." The court went on to explain that it was appropriate to apply the inevitable disclosure doctrine because a competitor could use Mr. Stoneham's knowledge of P&G's confidential information to avoid the cost and time-consuming steps that P&G took to develop market research, to exploit any weaknesses of P&G products, and to replicate P&G's new products.

The *Procter & Gamble Co. v. Stoneham* case was an important decision, but the cases that have followed did little to interpret or clarify its holding. Now, in the 2007 case of *Aero Fulfillment Services, Inc., v. Tartar*, the same court that decided *Procter & Gamble Co. v. Stoneham* has provided further guidance on the application of the inevitable disclosure doctrine.

Aero Fulfillment Services, Inc. v. Tartar

Aero Fulfillment Services ("Aero") had employed Brent Tartar for fifteen years. Mr. Tartar worked as Vice President of Sales during his later years with the company, and he signed a covenant not to compete with Aero in 1998. In the covenant, Mr. Tartar agreed that he would not disclose confidential information, solicit employees of Aero, compete within 100 miles of Aero, or solicit Aero prospects or customers for one year after terminating his employment.

Mr. Tartar eventually resigned from Aero and accepted a position with a competing company, W.A. Wilde, Inc. ("Wilde"). Mr. Tartar's new position was similar to the position he held at Aero. In response, Aero filed a lawsuit seeking to enforce the non-compete agreement. Specifically, Aero alleged that Mr. Tartar used parts of a marketing study that it had commissioned at a Mailing and Fulfillment Services Association (MFSA) conference, and that Mr. Tartar had used the study to solicit business.

However, the trial court denied Aero's request for an injunction against Mr. Tartar, holding that the harm was *speculative* and that Aero had a *legal remedy* available to it. Aero appealed that decision to the First District Court of Appeals.

The First District Court of Appeals – the same court that decided the *Procter & Gamble v. Stoneham* case – agreed with the trial court and found that the inevitable disclosure doctrine did *not* apply in this case. The court determined that Aero failed to substantiate the reasons for an injunction against Mr. Tartar. In its decision, the Court of Appeals emphasized that: (1) Aero did not identify any *specific* trade secrets or confidential information that Tartar had misappropriated or could have even used to Aero's detriment; (2) Aero was not reasonably *prompt* in its motion for injunctive relief; and (3) Aero failed to treat its marketing study as *confidential*.

The court distinguished the threat of irreparable harm in the *Stoneham* case by pointing out that the knowledge held by Mr. Stoneham was product-specific – whereas the knowledge contained in the Aero marketing study merely discussed *industry data* that could easily and properly be ascertained by Aero's competitors through their own market research. Additionally, the court found that even if the market research should have been protected, Mr. Tartar had already disclosed the information at the MFSA conference. Therefore, at the time Aero sought the injunction, the alleged harm had been done, and any alleged damages could be calculated to a reasonable degree. Moreover, the court found that the injunction sought by Aero was not warranted because Aero sought the injunctive relief *too late* – ten months after Mr. Tartar had resigned, and three months after the case was filed.

What Does this Mean for Employers?

Although Ohio recognizes the inevitable disclosure doctrine, the *Aero* case makes clear that the doctrine may *not* protect employers where the information that a company seeks to protect does not rise to the level of a trade secret or valuable confidential information. That is, employers must identify specific trade secrets, confidential information, or customer-specific information directly related to their products or business strategies in order to invoke the inevitable disclosure doctrine. In *Aero*, the court denied injunctive relief because the only "confidential" information identified by the employer was general marketing data about the industry in which both employers competed. Such general, easily replicated data will not be enough to warrant injunctive relief.

In addition, the *Aero* decision makes clear that the inevitable disclosure doctrine will not apply where the employer is slow to act. If an employer is on notice that a former employee may be disclosing trade secrets or confidential information, or is otherwise violating their non-compete agreement, it is important for the employer to act immediately. Here the court found that moving for injunctive relief three months after filing the lawsuit, and ten months after the employee resigned, considerably weakened Aero's ability to obtain the relief that it sought.

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