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SOUTHERN DISTRICT CIVIL PRACTICE ROUNDUP

Expert Analysis

Preliminary Injunctions In Non-Compete Cases


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For employees who possess confidential business information, the threat of a preliminary injunction can make changing jobs a highrisk proposition. To prevent, or at least forestall, the loss of confidential information to the competition, employers occasionally seek preliminary injunctions, regarded as "one of the most drastic tools in the arsenal of judicial remedies,"[1] to enjoin departing employees from working for competitors. The decision whether to grant such relief generally turns on resolution of the tension between protecting proprietary business information on the one hand, and the strong public policy against limiting competition and an individual's ability to work on the other.

As a number of recent decisions from the U.S. District Court for the Southern District of New York illustrate, employers and employees alike can take steps before and during litigation that may influence how the balance between these competing interests will be struck.

Legal Standard

In the U.S. Court of Appeals for the Second Circuit, a party seeking a preliminary injunction must establish the likelihood of irreparable injury in the absence of an injunction. The risk of irreparable injury must be actual and imminent rather than remote or speculative.[2] Once the prerequisite of irreparable injury is met, the Second Circuit charts two alternative avenues for obtaining preliminary injunctive relief. A party must demonstrate either (1) a likelihood of success on the merits of its claim or (2) "sufficiently serious" questions making the merits "fair ground for litigation" plus a balance of hardships "tipping decidedly" in the movant's favor.[3]

The Supreme Court's decision last year in *Winter v. Natural Resources Defense Council*[4] may introduce a new gloss on this long-established Second Circuit standard. The standard as articulated in *Winter* requires a plaintiff to show that "he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest."[5] According to one commentator, this formulation calls into question the Second Circuit's "second avenue" for obtaining a preliminary injunction absent a likelihood of success on the merits, where there are only serious questions going to the merits plus a balance of hardships decidedly favoring the moving party.[6]

Courts focus heavily on the nature of the information at stake and evidence indicating whether an employee is likely intentionally, or even unintentionally, to reveal that information.

The Second Circuit has not yet sought to re-tool the longstanding standard operative in this circuit for entry of a preliminary injunction,[7] and we do not read *Winter* as overruling the Second Circuit's approach. We do note, however, that *Winter* could be read to require consideration of the private equities as well as the public interest in every case, including where the plaintiff has established both irreparable injury and a likelihood of success on the merits. Many cases already consider these factors, and thus, as a practical matter, *Winter* is unlikely to result in a significant change in Second Circuit law.

Employer-Employee Cases

In non-compete cases, because an employer's entitlement to an injunction ultimately turns on whether it can show that the former employee is likely to reveal confidential business information, "the irreparable harm analysis and the likelihood of success on the merits analysis are closely related and often conflated."[8]

At each stage of the inquiry, courts focus heavily on the nature of the information at stake and evidence indicating whether an employee is likely intentionally, or even unintentionally, to reveal that information. They also give significant weight to whether there is an effective non-compete contract between the parties. Three recent Southern District cases, reaching different conclusions as to whether a departing employee should be enjoined from working for a competitor, illustrate the significance of these factors.

'IBM v. Papermaster'

In *International Business Machines Corp.* v. Papermaster,[9] IBM succeeded

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in enjoining Mark Papermaster, a former executive with extensive knowledge of IBM technology, from working for Apple Inc. Mr. Papermaster, an expert in microprocessors, had worked at IBM for 26 years in a senior capacity, and was a member of an elite group of IBM executives that developed corporate strategy. He had access to highly confidential technical information as well as information regarding strategic plans, product development and longterm business opportunities. He was hired by Apple to be a senior vice president responsible for the iPod and iPhone products.

In granting IBM's request for a preliminary injunction, Southern District Judge Kenneth M. Karas noted that a determination of irreparable harm requires more than the mere showing that the employee is in possession of confidential business information. IBM also would have to show either that the employee had misappropriated the information or that his new employment "create[d] a risk that disclosure of this information [was] inevitable."

Judge Karas found no evidence that Mr. Papermaster actually had misappropriated IBM's trade secrets, but did conclude that he would inevitably disclose secrets he did possess to Apple. In reaching that conclusion, Judge Karas applied a four-factor test considering: (1) the extent to which the new employer is a direct competitor of the former employer; (2) whether the employee's new position is nearly identical to his old one; (3) the extent to which the trade secrets at issue would have value to his new employer; and (4) the nature of the industry and its trade secrets.[10]

Judge Karas held that Mr. Papermaster had been "inculcated" with some of IBM's most valuable technical and strategic secrets and that it was inevitable that he would use his IBM experience and expertise in his new position with an IBM competitor. He rejected Mr. Papermaster's argument that the new position would merely call on Mr. Papermaster's general engineering skills, finding that Apple hired Mr. Papermaster precisely because of his knowledge of semiconductors and microprocessor design. Judge Karas concluded that "by drawing upon IBM-developed proprietary information in these fields, Mr. Papermaster will harm in unquantifiable ways IBM's ability to compete…."[11]

Judge Karas' finding of irreparable harm was bolstered by the fact that Mr. Papermaster had signed a non-competition agreement expressly acknowledging that IBM would suffer irreparable harm if he violated it. Recognizing that such a contract does not per se entitle the employer to a finding of irreparable harm, Judge Karas nevertheless concluded that the agreement's explicit provision and common sense contributed to making the finding of irreparable harm more than mere speculation in that case.

'IBM v. Johnson'

Southern District Judge Stephen C. Robinson's decision to deny the requested injunction in *International Business Machines Corp. v. Johnson*[12] also turned in substantial measure on the nature of the information possessed by the departing employee and the risk of harm to his former employer (again IBM) posed by its potential disclosure. (Interestingly, the court considered this issue in the context of the balance of hardships inquiry, underscoring the extent to which the various prongs of the preliminary injunction standard ultimately turn on similar factors).

In *Johnson*, IBM sought to prevent David Johnson, its former vice president of corporate development, from moving to its competitor, Dell Inc. Like the defendant in *Papermaster*, Mr. Johnson was a member of the elite management group privy to confidential strategic initiatives. IBM claimed that Mr. Johnson was aware of confidential, competitive information concerning IBM's clients' needs, its competitors' strategies, and its own strategies for carrying out business opportunities.

Acknowledging that IBM faced some risk from disclosure of this information, Judge Robinson found that IBM nevertheless had overstated its case, characterizing its submissions as "long on generalities and rather short on details." He specifically contrasted Mr. Johnson to Mr. Papermaster, who had technical knowledge regarding IBM's "crown jewels," observing that the information Mr. Johnson possessed was "not the sort of information that is considered quintessential trade secret information—detailed technical know-how, formulae, designs, or procedures."[13] He concluded that any harm IBM would suffer absent an injunction did not outweigh the harm Mr. Johnson would suffer if forced to stay on the sidelines of a rapidly changing field.[14]

What also distinguished *Johnson* from *Papermaster* was the fact that Mr. Johnson had avoided properly signing a non-competition agreement despite IBM's repeated attempts to get him to do so. In an effort to delay entering into the agreement, Mr. Johnson had initially signed in the space provided for the company's signature, and thereafter ignored requests to execute a new version of the document in the correct place.

Judge Robinson found that IBM faced a "daunting, if not insurmountable, task" in proving that Mr. Johnson was bound by the non-compete agreement, and that, accordingly, IBM had not established a likelihood of success on the merits of its breach of contract claim.[15] Had Mr. Johnson properly signed the agreement the court may well have reached a different conclusion on the ultimate question of whether to enjoin Mr. Johnson's move to Dell.

> The preliminary injunction is a potent weapon that courts are hesitant to unleash against former employees absent clear evidence that the new employment poses a real risk that confidential information will be divulged.

'American Airlines v. Imhof'

The employee-defendant also prevailed in *American Airlines Inc. v. Imhof,*[16] where Southern District Judge Lewis A. Kaplan refused to find that the departing employee would inevitably disclose confidential information to his new employer, despite the fact that he had clearly misappropriated information in anticipation of switching jobs. The defendant, Charles Imhof, was the senior-ranking manager of American Airlines' New York Sales Division when he left to assume a similar position for Delta Airlines. Before leaving American, Mr. Imhof e-mailed himself or copied to an external hard drive information that American contended was confidential and competitively sensitive. After discovering that Mr. Imhof had taken this information, American sought to enjoin Mr. Imhof from working for Delta.

Judge Kaplan rejected American's contention that Mr. Imhof's undisputed misappropriation of American's information automatically gave rise to a presumption of irreparable harm, in light of the Second Circuit's recent decision in *Faiveley Transport Malmo AB v. Wabtec Corp*.[17] *Faiveley* held that mere use of trade secrets is often fully compensable through monetary damages, and that the rebuttable presumption of irreparable harm arises only when there is risk that those secrets will be disseminated.[18]

Judge Kaplan observed that "Imhof ha[d] learned—by reason of American's claim, Delta's reaction, and consultation with his own newly acquired counsel—that there are substantial limitations on his freedom of action," and had offered to return or destroy the materials. That fact, coupled with Delta's assurances that it would not accept confidential information, dispelled any risk that Mr. Imohof would retain, much less disclose, the confidential material to Delta.[19]

Judge Kaplan then considered whether American could establish irreparable harm through the inevitable disclosure doctrine, noting, at the outset, that the doctrine stood in "considerable tension with other principles that inform decisions in cases like this." Specifically, he commented that the doctrine permits creation of an implied-in-fact restrictive covenant not to compete, contrary to New York's public policy against such agreements, and, if applied too readily, would suppress healthy competition in the marketplace.

Judge Kaplan concluded that application of the doctrine required consideration of whether the information at issue is "highly technical or specialized scientific data as opposed to perhaps less valuable and sensitive sales or general business management information."20 He found much of the information at issue here, involving sales of a widely used service, was readily ascertainable from public sources or was "so obvious and so general as to be virtually meaningless." (Judge Kaplan provided as an example, that "American hoped to be one of the two top airlines in New York and to build a profitable business by catering to corporate and leisure travelers."). Concluding that American had failed to point to specific information that would give Delta a material competitive advantage, Judge Kaplan held that American had made only a weak showing as to inevitable disclosure.

However, Judge Kaplan assumed that even the weak showing regarding the inevitable disclosure created fair grounds for litigation such that the propriety of an injunction rested on a balancing of the equities. He determined that an injunction would effectively prevent Mr. Imhof from working in the industry to which he had devoted two decades and from supporting his family in troubled financial times. He concluded that the harm to American, which was speculative at best, could not outweigh the substantial hardship to Mr. Imhof, and accordingly denied the injunction.

Finally, Judge Kaplan clearly was swayed by the absence of a non-competition agreement. Not only did he express trepidation about using the inevitable disclosure doctrine to impose a de facto non-competition agreement where none existed, but he admonished American for what he viewed as "[i]ts effort to obtain the substantial equivalent by judicial decree without paying for it."[21]

Conclusion

The preliminary injunction is a potent weapon that courts are hesitant to unleash against former employees absent clear evidence that the new employment poses a real risk that confidential information will be divulged. The existence of a written non-compete agreement can be an important factor, but an employer seeking a preliminary injunction must also come armed with concrete evidence of the harm it claims it will suffer in the absence of an injunction.

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1. *Hanson Trust PLC v. SCM Corp.*, 774 F.2d 47, 60 (2d Cir. 1985).
2. *Moore v. Consol. Edison Co. of N.Y.*, 409 F.3d 506, 510 (2d Cir. 2005).
3. *Faiveley Transport Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 116 (2d Cir. 2009); *Fed. Express Corp. v. Fed. Espresso Inc.*, 201 F.3d 168, 173 (2d Cir. 2000).
4. 129 S. Ct. 365 (2008).
5. Id. at 374.
6. See 13 James Wm. Moore et al., Moore's Federal Practice §65.22[5][b] (3d ed. 2009) (cited in *Int'l Bus. Machs. Corp. v. Johnson*, 629 F.Supp.2d 321 (SDNY 2009) (Robinson, J.)).
7. See, e.g., *Faiveley Transport*, 559 F.3d at 116; *Mullins v. City of New York*, 307 Fed. Appx. 585, 586 (2d. Cir. 2009).
8. *Int'l Bus. Machs. Corp. v. Papermaster*, 2008 WL 4974508, at *6 (SDNY Nov. 21, 2008) (Karas, J.) (citing *Int'l Creative Mgmt. Inc. v. Abate*, 2007 WL 950092, at *2 (SDNY March 28, 2007) (Leisure, J.)).
9. 2008 WL 4974508.
10. Id. at *7.
11. Id. at *9.
12. 629 F.Supp.2d 321 (SDNY 2009).
13. Id. at 335 (citing *American Airlines Inc. v. Imhof*, 620 F.Supp.2d 574, 582 (SDNY 2009) (Kaplan, J.)).
14. Subsequently, IBM sought leave to file a second motion for a preliminary injunc-tion against Mr. Johnson, but the court also denied that re-quest, noting that IBM had appealed its earlier decision to the Second Circuit and that the district court should not encroach on the Second Circuit's re-view of the issue. In addition, the court decried IBM's piecemeal litigation strategy and its attempt to file seriatim motions re-questing the same relief. 2009 WL 2356430 (SDNY July 20, 2009). Oral argument of the appeal took place on Sept. 9, 2009.
15. 629 F.Supp.2d at 333.
16. 620 F.Supp.2d 574 (SDNY 2009).
17. 559 F.3d 110.
18. Id. at 118-19.
19. 620 F.Supp.2d at 580.
20. Id. at 582.
21. Id. at 587.