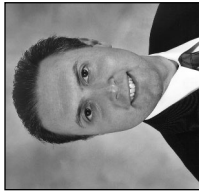




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Is Anything Confidential Anymore?

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Is Anything Confidential Anymore?

A review of the Commercial Division of the Supreme Court of NY's trend of non-enforcement of restrictive covenants based on reluctance to recognize business information as "legitimate protectable interests"

There is nothing scarier to an employer than a key employee leaving after many years of service during which she gained invaluable experience and unique skills, formed long-standing relationships with customers and had access to its trade secrets and confidential information. However, it becomes even more frightening when the employee commences employment with a major competitor.

In today's business world, information is one of the most valuable commodities and the loyalty of the people that control the information is of paramount importance. Therefore, a valid and enforceable restrictive covenant can be one of an employer's more valuable assets. These documents can include agreements by an employee not to disclose the employer's trade secrets or confidential information, not to solicit the employer's other employees or customers and not to engage in employment that is competitive with the employer's business. These agreements can protect trade secrets, confidential information, customers and goodwill from misappropriation by former employees. They can also prevent an employer's competition from gaining an unfair competitive advantage by hiring its former employees.

Unfortunately for New York employers, restrictive covenants which tend to prevent an employee from pursuing a similar vocation after termination of employment are disfavored by law. Consequently, New York law places severe limitations on the ability of an employer to control or restrict the future business activities of its employees unless "legitimate protectable interests" in the form of "trade secrets" or "confidential information" are involved. These covenants will be enforced only to the extent necessary to protect an employer from unfair competition stemming from an employee's use or disclosure of trade secrets or confidential customer lists, or if the employee's services are unique or extraordinary.

What constitutes a "legitimate protectable interest," "trade secret" or "confidential information" is being construed more and more narrowly by New York Courts. In particular, the Commercial Division of the Supreme Court in New York County, where a majority of cases seeking to enforce restrictive covenants are brought, has been very guarded in awarding plaintiffs injunctive relief. Where names of past or prospective customers are ascertainable from sources outside a former employer's

business, trade secret protection will not be awarded and solicitation by a former employee will not be enjoined. In order to determine what information is privileged, courts currently ask if information can be "readily obtained without extraordinary effort."

Employers seeking to protect customer information face a major hurdle because most information is readily available through independent sources, such as trade publications, newspapers and the Internet. Therefore, convincing the court that information constitutes a legitimate protectable interest has become an arduous task at which New York employers have rarely been successful in recent years. One of the primary issues confronting courts today is whether customer lists constitute legitimate protectable interests. To the dismay of employers, because courts routinely find customer lists are readily available through public sources, this question has been met with emphatic denial and the lists have been afforded little protection, even in the face of restrictive covenants.

The Commercial Division has dealt with many cases involving employers alleging that their customer lists contain confidential information. Employers in the staffing, advertising, real estate and other similar industries have unsuccessfully advanced this argument. Judge Lowe addressed this issue in the advertising industry in *Bernard Hodes Group, Inc. v. Guglielmo*. In that case, the plaintiff advertising agency, Hodes, sought a preliminary injunction to prevent two former employees from disclosing confidential information and otherwise violating the terms of restrictive covenants contained in their written employment agreements.

In refusing to grant a preliminary injunction, Judge Lowe noted that Hodes had not established that the defendants had misappropriated trade secrets or confidential customer lists or that their services were in any way unique or extraordinary. The court provided guidance in defining a trade secret as any secret "which gives an opportunity to obtain an advantage over competitors who do not know or use it." Further, Judge Lowe concluded, "notwithstanding Hodes' expenditure of time and money in compiling its customer list, this type of information can be acquired with no extraordinary effort from non-confidential sources and therefore is not entitled to trade secret protection."

Similarly, in *Marketing Services, Inc. v. Ardis Williams, et al.*, the Court was presented with a situation involving two vice presidents who abruptly left the plaintiff's employ. As was customary, the defendants had signed employment agreements that contained non-competition, non-disclosure and non-solicitation provisions. After the defendants left work with the plaintiff they promptly commenced employment with a competitor. To exacerbate the situation, a week before one of the defendants left the plaintiff's employ, she downloaded a computer database from the plaintiff's system with the names of over 500 of the plaintiff's clients, along with contact names and information. Furthermore, one day after the departure of the individual defendants from the plaintiff's employ, four lower level employees who had been under the supervision of the defendants also left the plaintiff to work with the defendants. When the plaintiff attempted to enjoin its former employees and their new employer from soliciting remaining personnel and utilizing information obtained from the plaintiff's records to compete with the plaintiff,

it was unsuccessful. The defendants contended that the alleged downloaded information was readily available, and so did not rise to the level of a "legitimate protectable interest" or "trade secret," and the court agreed. The defendants further argued that they had previous relationships with customers on the list, and that most of the material the plaintiff sought to protect was readily available on the plaintiff's web site. Judge Ramos held that, "although the allegation of downloading of the material from Ms. Haason's computer--which, if the information was readily available, should have been an unnecessary exercise--raises some concern, this is not sufficient to warrant awarding the drastic remedy of injunctive relief."

In *Atlantis v. Benitez*, Judge Lowe was presented with a situation where the plaintiff hired the defendant as the Director of Latin American Sales. The plaintiff was a provider of previously owned medical diagnostic imaging and radiation oncology systems. The defendant entered into an employment agreement with the plaintiff containing a non-competition covenant, which provided that he would not, for a period of two years after the termination of his employment, "contact, solicit, or accept any orders from any customers of [the plaintiff] which employee has directly or indirectly serviced during employment." When the defendant resigned from Atlantis he promptly filed papers to incorporate the defendant corporation, which is engaged in business in competition with the plaintiffs.

Atlantis brought suit to enjoin the defendant from utilizing its customer lists to compete with Atlantis and Judge Lowe reiterated the strictly applied rule that, in order to be considered confidential, "a customer list must contain information relating to clients that is not readily known in the trade and that is discoverable only through effort." Atlantis unsuccessfully contended that the list was developed through "years of business effort and advertising as well as expenditure of time and money." The defendant presented evidence that the key customers that he contacted were readily discoverable through the Internet. The court denied a request for an injunction, even in the face of the restrictive covenant, stating that Atlantis "ha[d] not proffered compelling evidence establishing that it possessed a customer list which is not readily ascertainable by the public."

This single factor—the ability to discover the information which is sought to be protected through readily available sources—has continually been the basis to deny injunctive relief, even in the face of a non-solicit or non-compete agreement.

As is apparent from the case law, the prevailing trend in the Commercial Division of the Supreme Court of New York is to favor employees and free competition and to strictly construe restrictive covenants. This stance has led to non-enforcement of restrictive covenants based primarily on the court's reluctance to recognize employer's professed confidential information or trade secrets as legitimate protectable interests. Courts will continue to scrutinize information more strictly as information becomes more easily accessible to the public and will continue on the same non-enforcement route as long as the standard remains the same and as information becomes easier to obtain.