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# The inevitable-disclosure doctrine

Ohio employment lawyers understand that employment agreements containing reasonable covenants not to compete will be enforced by Ohio courts and that even those found to be unreasonable will be "enforced to the extent necessary to protect the employer's legitimate interest."[1] The standard established by the Supreme Court of Ohio is that, "[a] covenant restraining an employee from competing with his former employer upon termination from employment is reasonable if the restraint is no greater than is required for protection of the employer, does not impose an undue hardship on the employee, and is not injurious to the public."[2]

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What many Ohio employment lawyers may not be as familiar with is a related doctrine known as the "inevitable-disclosure" doctrine, which can arise where a former employer claims its ex-employee had access to confidential information and trade secrets. The premise of the doctrine is that a threat of harm warranting injunctive relief can be shown by establishing that an employee with detailed and comprehensive knowledge of an employer's trade secrets and confidential information has begun employment with a competitor of the former employer in a position substantially similar to the position held during the former employment such that disclosure or use of the prior employer's trade secrets will be inevitable.[3]

When seeking to enjoin the activities of a former employee, employers have sought to use this doctrine as additional support in their efforts to enforce a covenant not to compete. The inevitable-disclosure doctrine also has been used in the absence of a restrictive covenant.[4] To date, however,

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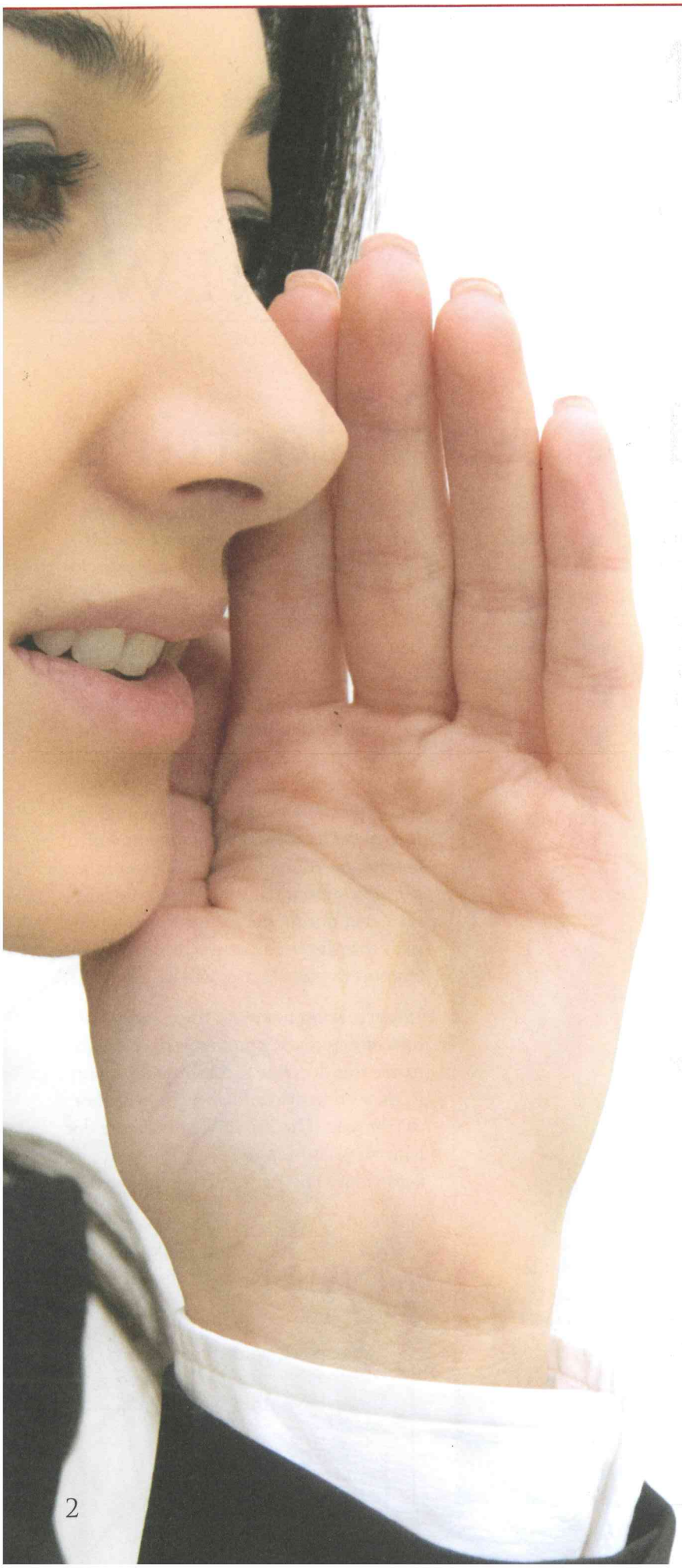

this doctrine has not developed strong legs as Ohio courts, for the most part, have been reluctant to embrace the doctrine.

The doctrine of inevitable disclosure of trade secrets was first applied in Ohio by the First District Court of Appeals in *Proctor & Gamble Company v. Stoneham.*[5] It can be fairly said that this decision was product-driven. The employee in question, Mr. Stoneham, had worked for 14 years in Proctor & Gambles' (P&G) hair care division and was responsible for international marketing. He then accepted a nearly identical job for Alberto-Culver. In seeking an injunction against Stoneham, P&G relied on Stoneham's familiarity with P&G product-specific market research results, financial data related to the costs and profits of the products, and the development of new products.

In applying the inevitable-disclosure rule and granting injunctive relief, the court found that, through the years, Stoneham had acquired extensive product-specific knowledge. For example, he had knowledge of which product areas within P&G would expand or reduce its business; product sensitive information concerning which types of advertising were most successful; which line of products optimized profit or sold best in foreign markets; information concerning development of new hair care products; which products were closest to market and when and where they would be launched; the strengths and weaknesses of the products and P&G's scientific backup for its product claims; and pricing for new products and targeted profits. The court of appeals, concluding that the information possessed by Stoneham was tangible, highly technical and specific to the products that each company sold, granted injunctive relief. It reasoned that P&G had presented sufficient evidence of the threatened disclosure of trade secrets, and the likely impossibility of ascertaining the actual damages that would result from the employee's continued employment with a direct competitor.

The Supreme Court has neither adopted nor rejected the doctrine of inevitable disclosure. Other Ohio courts have generally declined to follow the lead of the 1st District in applying the doctrine, generally concluding that the value employees bring to a new employer is more often the result of their pre-existing skills and knowledge rather than secrets revealed to them. In fact, the 1st District subsequently declined to apply the rule in *Aero Ful-*

*fillment Services, Inc. v. Tartar*, finding Stoneham factually distinguishable.[6]

A good example of a case where a court reversed rulings based on the inevitable-disclosure doctrine is a recent Franklin County Court of Appeals case, *Hydrofarm v. Orendorff*.[7] Although the former employee in that case had assumed a similar position with a competitor, the court of appeals reversed the trial court's application of the inevitable-disclosure doctrine. The court found that the information the employer claimed was confidential was more the product of the employee's own 14 years of sales and marketing experience rather than confidential technical information posing a threat of misappropriation. Further, the court found no evidence of any actual disclosures or misappropriation of the information.[8]

Another example of a court's refusal to apply the doctrine comes from *Jacono v. Invacare Corp.*, which involved an employee's alleged confidential technical knowledge about the former employer's motorized wheelchairs.[9] Invacare alleged that Jacono possessed information regarding the terminology, data configurations and devices used in its marketing plans that were unique to the company. In rejecting the injunctive relief sought, the court found that Invacare was unable to show that the information was not used by or available to other companies. Moreover, it found that Jacono's skills were acquired not by virtue of her employment at Invacare but by virtue of her education and experience.[10]

The 6th Circuit Court of Appeals, in a case applying Michigan law, has also rejected the doctrine. In *Degussa Admixtures, Inc. v. Burnett*, the court noted that Michigan had not endorsed the doctrine of inevitable disclosure on the ground that the "concept must not compromise the right of employees to change jobs."[11] Indeed, the doctrine can pose a real threat of unduly restrictive limitations on employment, for it allows a former employer to obtain an injunction preventing employment with a competitor, based not on actual or threatened disclosure of trade secrets, but instead based on the speculation that such disclosure cannot possibly be avoided.

An employer in a recently decided Southern District of Ohio case sought application of the inevitable-disclosure doctrine in the context of related breach of contract and misappropriation of trade secrets claims.[12] The court held that even when a plaintiff has proven the existence of a trade secret, that party still carries the burden of demonstrating that misappropriation has actually occurred or is threatened. It is not sufficient to simply assert that inappropriate use of the information is inevitable. In that case, CIM had granted a license to VMI to manufacture can-washing machines at its European plant using CIM's trade secret methods. When VMI moved its manufacturing operation to China, CIM argued that the manufacturing in China would inevitably lead to the disclosure of its trade secrets. The court disagreed finding that there was no evidence that the security measures used by VMI in China would be ineffective so that there would be an inevitable disclosure of trade secrets.

Although employers will likely continue to seek injunctive relief on the basis of the inevitable disclosure doctrine, it is clear that courts are wary about application of the doctrine. The pattern has been that courts are seeking proof beyond a claim of inevitability. Thus far, the inevitable disclosure rule has been applied in the unusual situation where an employee with a long employment history and substantial knowledge of the development and sales of a company's products stepped in to virtually the same position with a direct competitor. It is yet to be determined whether Ohio courts have reached the outermost boundary for enforcement of restrictive employment covenants or protecting employers from "inevitable disclosures." However, one could argue that since employees bound by covenants not to compete already face a difficult challenge when changing jobs, the inevitable disclosure doctrine may continue to be viewed by courts as an overly restrictive limitation on employment. ◆

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## Endnotes

[1]See *Levine v. Beckman* (1988), 48 Ohio App. 3d 24, 27, 548 N.E.2d 267, 270); see *Raimonde v. Van Vierah* (1975), 42 Ohio St.2d 21, 325 N.E.2d 544.

[2]See id., paragraph two of the syllabus. See also *Rogers v. Runfola & Associates*, Inc. (1991), 57 Ohio St.3d 5, 8, 565 N.E.2d 540, 543.

[3](Hamilton Cty. App. 2000), 140 Ohio App.3d 260, 747 N.E.2d 268.

[4]See *Dexxon Digital Storage, Inc. v. Haenstill* (5th Dist. 2005), 161 Ohio App.3d 747, 832 N.E.2d 62.

[5]Id.

[6](Hamilton Cty. App. 2007), 2007 Ohio 174, 2007 Ohio App. LEXIS 171, discretionary app. den'd, 2007 Ohio 2632.

[7](App. Ohio, Franklin County, 2008), 180 Ohio App.3d 339, 905 N.E.2d 658.

[8]Id., 180 Ohio App.3d at 348.

[9](8th Dist. 2006), 2006-Ohio-1596, 2006 Ohio App. LEXIS 1501.

[10]Two other Ohio cases in which the doctrine of inevitable disclosure has been raised unsuccessfully are *Berardi's Fresh Roast, Inc. v. PMD Enterprises, Inc.* (Ohio Cuyahoga County 2008), 2008-Ohio-5470, 2008 Ohio App. LEXIS 4618, and *Armstrong v. Marusic* (Ohio Lake County 2004), 2004-Ohio-2594, 2004 Ohio App. LEXIS 2296.

[11](6th Cir. 2008), 277 Fed. Appx. 530, 2008 U.S. App. Lexis 10017; id. at 535.

[12](S.D. Ohio 2010), 2010 U.S. Dist. LEXIS 21683; *Cincinnati Industrial Machinery (CIM), Inc. v. VMI Holland BV.*