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Decision on Elusive “Inevitable Disclosure” Doctrine Underscores Key Steps to Protect Company Information

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Companies in all states should take note of the Georgia Supreme Court’s decision earlier this year in ***Holton v. Physician Oncology Services, LP***, 292 Ga. 864 (2013). The case rejected the doctrine of inevitable disclosure of trade secrets as an independent basis for enjoining an employee from going to work for a competitor. Where recognized, the inevitable disclosure doctrine provides the ability to enjoin an employee from working for a competitor even in the absence of a noncompete agreement or any demonstrated bad acts by the departing executive such as taking the past employer’s information. The decision is a good occasion for businesses to ensure they are aware of the doctrine of inevitable disclosure, how it is applied (or not) in the states in which they do business, and what proactive steps they should take to protect their investments in confidential information.

Holton presents the typical factual scenario in which the inevitable disclosure doctrine arises. Holton was a high level employee for Physician Oncology Services (POS), which provides radiation therapy services. As vice president and COO, and then as president, Holton was responsible for overseeing the operations of seven facilities in the Atlanta area. He had a one-year noncompete in which he agreed not

to provide similar services to a competing business with 25 miles of POS's seven locations.

The company merged with a larger company (Vantage Oncology, LLC) in January 2011, and Holton's responsibilities gradually diminished until he was terminated without cause in October 2011. A month later, he became chief executive officer of Radiology Oncology Services of America, Inc. (ROSA), which had four operating centers within Holton's noncompete territory with POS/Vantage.

Vantage filed suit against Holton, and obtained an injunction against his employment from a trial court, based both on the noncompete and on Vantage's argument that Holton would inevitably disclose its confidential information to ROSA if employed there. By the time the matter was before the Georgia Supreme Court, the noncompete period had expired and Holton was working as ROSA's CEO, so the noncompete issue was moot. However, the Court needed to address whether Holton should be further enjoined from working for ROSA because of POS's argument that he would inevitably disclosure POS's trade secrets if he continued to be employed by ROSA.

Of great importance to the outcome of the case is that there was no evidence before the Court that Holton possessed any of his former employer's documents or even recalled any of its trade secrets (though it seems unavoidable that Holton did recall trade secrets). In fact, there was evidence that ROSA had instructed Holton to abide by his confidentiality obligations with POS, and that Holton had taken steps to ensure that he did not have POS documents on his computer.

While Georgia has, like 47 other states (as of September 1, 2013, when it takes effect in Texas) adopted a form of the Uniform Trade Secrets Act prohibiting the misappropriation of trade secrets, the Court rejected the possibility that a trade secret claim could be based solely on inevitable disclosure. The Court seemed to leave open the possibility that, with more compelling facts, a former employer could obtain an injunction against a departed executive in part based on demonstrated inevitable disclosure of information.

The Court referenced the following factors that courts consider in applying the inevitable disclosure doctrine:

1. The former and current employers are direct competitors providing similar products and services.

2. The executive's position with the new employer has responsibilities similar to the position held with the former employer.

3. The executive will be unable to perform his responsibilities with the new company without relying on the former company's trade secret information.

4. The trade secrets are valuable to both employers.

5. The executive's bad faith conduct or intent to disclose trade secrets.

It is difficult to draw broad conclusions from the many different approaches to inevitable disclosure from courts across the country (of which Holton provides a

good summary, by the way). However, clearly the last factor – do the departing executive and the new employer have clean hands? – was critical in Holton and ultimately seems to be the determining factor in many inevitable disclosure cases.

Businesses are well advised to consult with counsel so as to be aware of the status of the inevitable disclosure doctrine in jurisdictions of importance to them, but Holton reminds us of practical takeaways that will apply to most companies in most jurisdictions:

From the standpoint of ***protecting your company's confidential information***, the inevitable disclosure doctrine is no substitute for (1) a noncompete agreement to the extent allowed in the relevant state(s) and (2) a robust trade secret protection program. While Holton is significant nationally because of its commentary on the inevitable disclosure doctrine, for POS and Mr. Holton what may have been most significant is that Holton was restrained from competing for one year due to the noncompete agreement. Usually inevitable disclosure questions arise when there is no noncompete, and had that been the case in Holton, it seems the stakes would have been much higher for the litigants.

From the standpoint of ***hiring an executive who has been with a competitor***, your company should take steps, as ROSA apparently did, to memorialize that it is neither your nor the executive's intent to utilize confidential information of the prior employer. Relative team members in addition to the executive himself should be instructed in writing of the company's intent in this regard. You should also require the executive to provide copies of all agreements entered into with the prior employer, analyze their enforceability, and structure responsibilities accordingly.

Finally, the new employer could obtain written certification from the new hire that he (1) has returned to his former employer all of the employer's property, including any documents and electronically stored information; (2) does not have any trade secret or confidential information of the former employer in any tangible form; and (3) has not and will not use any trade secret or confidential information of his former employer (if he had or has any) in connection with his current employment. With these steps in place, it would be difficult for the former employer to claim inevitable disclosure. (It also provides protection to the new employer against tortious interference claims in the event the executive has done something questionable.)

Finally, if pursuing the inevitable disclosure theory in ***litigation***, like many cases before it *Holton* highlights the importance of whether the executive has clean hands (which *Holton* apparently did), and also of making a convincing showing of the inevitability of the disclosure of confidential information in a way that will harm the former employer. Proactively, companies might consider incorporating aspects of acknowledging this inevitability in their agreements with executives. In litigation, it is important to elicit these acknowledgements in discovery as much as possible.

There can be little question that an executive leaving one competitor for another will at a minimum remember important strategic information that cannot be unlearned just because he changes addresses. However, *Holton* demonstrates that the former company's ability to restrict the executive is limited, and that the most effective restrictions are those that are carefully designed and implemented in advance.

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