



LEGAL ISSUES

Protecting Trade Secrets through Non-Competition Agreements

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With rising occupancy and room rates signaling a turn-around in the hospitality industry, time share companies are placing an increased emphasis on keeping and attracting the best employees. What happens, then, when your "star" employee — the one you've invested heavily in and entrusted with your company's best kept trade secrets — decides to abandon ship and join the competition? Is there anything you can do to stop him?

The answer may well depend upon whether your employee has signed a non-competition agreement restricting his ability to work for the competition. In a recent case, a hotel amenities supplier, Pacific Direct, Inc. ("Pacific"), hired the former senior vice president for sales and marketing for Marietta Corporation ("Marietta"), a competitor, whose responsibilities included high level product development and marketing.

Shortly thereafter, Marietta sued to prevent the employee from working for Pacific on the grounds that the employee had, or would inevitably use, confidential trade secrets acquired during his employment that would cause irreparable injury to Marietta.

The court denied Marietta's request. While acknowledging that the misappropriation of a trade secret could give rise to the irreparable harm required to prevent the employee from moving to a competitor, the court noted that there was no proof that the employee had actually disclosed any proprietary information and, in the absence of a non-competition agreement, the court said that it was unwilling to create an "implied-in-fact restrictive covenant."

Had there been a restrictive covenant in place, the result might well have been different. Indeed, the court specifically

noted that the employee had an *expired* employment contract containing an express covenant not to compete and a provision stating that any breach or threatened breach of the restrictive covenant would give rise to injunctive relief. In view of the fact that Marietta had allowed this agreement to lapse and had executed a new confidentiality agreement with the employee which did not contain a restrictive covenant, the court concluded that it was "clearly anticipated" that the employee might change his employment after acquiring plaintiff's confidential information.

In contrast, in another recent case, the court held that restrictive covenants contained in two former employees' employment agreements were enforceable to the extent necessary to protect the former employer's client relationships and goodwill. Although the court recog-



nized that there were "competing concerns" in balancing an employer's legitimate right to protect the fruits of its labor against an employee's right to freedom of employment, the court concluded that:

These competing concerns are properly resolved by the parties through their freedom to contract... Thus, it is not the Court's province to determine the best way to balance the parties' interests. To the contrary, the Court's duty is merely to determine the extent to which the parties' agreement is reasonable under

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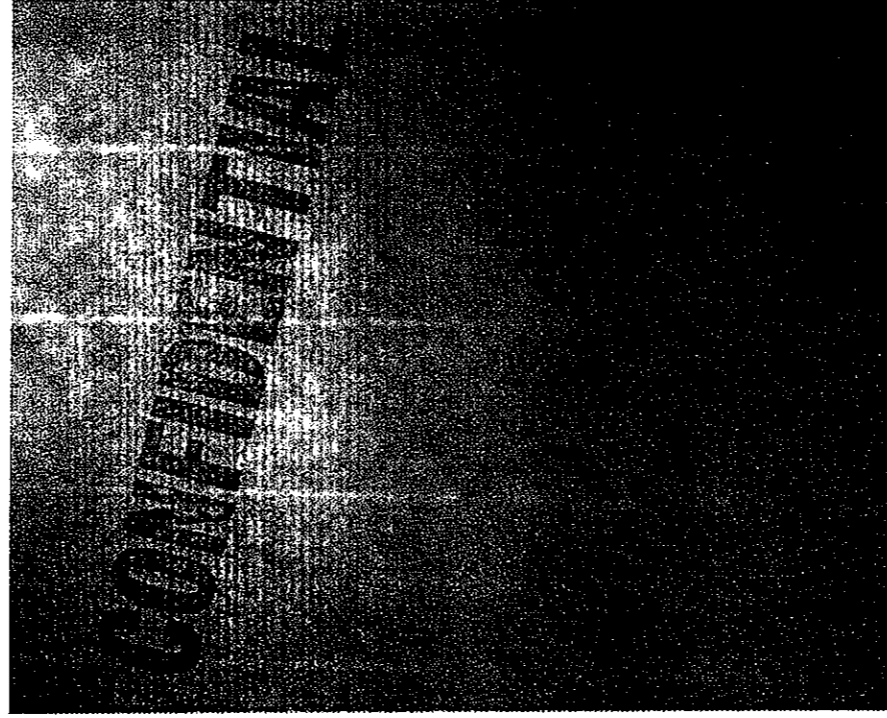
this analysis and to enforce it accordingly.

Since the court determined that the non-compete provisions were reasonably limited in time and geographic scope and necessary to protect the employer's legitimate business

interests, it enforced the restraints.

In a situation where a time-share company or other employer is not seeking to prevent an employee from working for the competition but suing to recover damages for the theft of its trade secrets, a non-competition agreement may not be necessary. For example, in a well known case from the mid-1990's, Radisson brought an action against Westin and its chief executive officer, Juergen Bartels, alleging that Bartels, a former high level employee of Radisson, wrongfully used Radisson's proprietary and trade secret information concerning its innovative "Look to Book" travel reservation marketing system to assist Westin in developing a competing travel counselor incentive program.

Although Bartels was not subject to a non-competition agreement, Radisson claimed that Westin and Bartels had wrongfully acquired and used "Radisson trade secret and confidential information relating to Radisson's 'Look to Book' incentive program, Radisson's valued customers, marketing information



concerning the 'Look to Book' program, and other trade secret information related to the hospitality business in which Radisson and Westin compete". The court upheld these claims in the face of Westin's motion to dismiss.

The moral of the story is clear. Although you may be able to recover an award of damages if your valuable trade secrets are actually disclosed to a competitor, you're always better off protecting yourself ahead of time by "locking" your employees into enforceable non-competition agreements. It just might mean the difference between keeping, or sharing, your trade secrets and holding onto that star employee.

Peter M. Ripin is a partner with the law firm of Davidoff Malito & Hatcher LLP in New York City where he practices in the areas of business litigation and dispute resolution. He has represented numerous institutions and individuals in the hotel and hospitality industries including hotels in connection with disputes concerning website domain name piracy and the Anti-Cybersquatting Piracy Act, timeshare developers and managers in disputes arising out of joint ventures and restaurant franchisees in connection with actions seeking to terminate their franchise agreements. In addition, Mr. Ripin has written, lectured and been interviewed on legal issues affecting the hotel and hospitality industries.

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Marietta Corporation v. Fairhurst, 301 A.D.2d 734, 754 N.Y.S.2d 62 (3d Dep't 2003).

Johnson Controls, Inc. v. A.P.T. Critical Systems, Inc., 323 F. Supp. 2d 525 (S.D.N.Y. 2004).

Radisson Hotels International, Inc. v. Westin Hotel Company, 931 F.Supp. 638 (D. Minn. 1996).