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Recent Developments: Lejeune v. Coin Acceptors, Inc: The "Inevitable Disclosure" Theory Cannot Serve as a Basis for Granting Injunctive Relief under the Maryland Uniform Trade Secrets Act

Mark Patrick Johnson

LEJEUNE v. COIN ACCEPTORS, INC:

The "Inevitable Disclosure" Theory Cannot Serve as a Basis for Granting Injunctive Relief Under the Maryland Uniform Trade Secrets Act

By: Mark Patrick Johnson

The Court of Appeals of Maryland held that the theory of "inevitable disclosure" could not serve as a basis for granting injunctive relief under the Maryland Uniform Trade Secrets Act ("MUTSA"). *LeJeune v. Coin Acceptors, Inc.*, 381 Md. 288, 849 A.2d 451 (2004). In so holding, the court concluded that the trial court, despite sufficient evidence to demonstrate past misappropriation of trade secrets, erred by issuing an injunction limiting future employment. *Id.* at 323, 849 A.2d at 472. The court of appeals vacated the circuit court's injunction restricting employment, thus preserving Maryland's policy in support of employee mobility. *Id.*

In 1993, William LeJeune ("LeJeune") began working as a Sales and Field Service Representative with Coin Acceptors, Inc. ("Coinco"), selling currency equipment and performing field maintenance for Coinco customers. By 1997, LeJeune was promoted, and after Coinco's restructuring in 2002, LeJeune's job title changed to Area Account Manager, in which capacity he was primarily responsible for selling Coinco vending products in the region. While a Coinco employee, LeJeune gained an extensive understanding of Coinco's products, pricing strategies, and business initiatives. Despite this knowledge and familiarity with company information, LeJeune never signed a non-compete or confidentiality agreement with Coinco.

In 2003, LeJeune accepted new employment with Mars, Coinco's principal competitor, as an Amusement Original Equipment Manufacturer Manager responsible for sales in the Amusement industry. Subsequently, LeJeune met with Coinco, informed his supervisor that he accepted employment with Mars, and returned his laptop computer and Coinco company documents. However, prior to the meeting, LeJeune, on three different occasions, transferred digital copies of Coinco budgeting software, specialty markets strategic plans, and other company documents from his laptop to compact disc. After transferring the files and software into his possession, LeJeune erased information from his laptop computer attempting to conceal his downloads. LeJeune alleged that he did not discuss or share any of Coinco's information with Mars, and that he did not know that Coinco was concerned about his knowledge of confidential information.

On July 24, 2003, Coinco filed a complaint for injunctive and other relief in the Circuit Court for Anne Arundel County. After concluding the hearing on Coinco's motion for a preliminary injunction, the trial judge determined it was likely that Coinco would be able to establish that Coinco's technical information and business strategy qualified as trade secrets under the MUTSA, and that it would be inconceivable for LeJeune to perform his job at Mars without considering the information acquired while employed with Coinco. The trial judge enjoined LeJeune from working for Mars, and from using or disclosing any of Coinco's confidential information because Coinco would be "irreparably harmed." The court further determined that issuing an injunction would not run contrary to the public interest.

LeJeune appealed, and the Court of Appeals of Maryland, on its own initiative, granted *certiorari*. After providing the standard of review for preliminary injunctions, the court began its discussion of the first question presented—whether LeJeune misappropriated Coinco's trade secrets. *Id.* at 300-307, 849 A.2d at 458-62. The court stated that the two requirements of a trade secret are: "the information must (1) hold 'independent economic value' because it is not 'generally known' to or readily ascertainable by others who stand to benefit economically if they use or disclose it, and (2) be the subject of reasonable efforts to maintain its secrecy." *Id.* at 307, 849 A.2d at 462 (quoting *Optic Graphics, Inc. v. Agee*, 87 Md. App. 770, 787, 591 A.2d 578, 587 (1991)).

The court determined that because Coinco's cost and profit information would give Mars a clear economic advantage in the unique and competitive currency acceptor industry, the information had commercial and economic value, and satisfied the first prong of the trade secret test. *Id.* at 310, 849 A.2d at 464. Satisfying the second prong, the court stated that Coinco did not publicly release product information, and Mars would have needed to spend an excessive amount of resources to obtain the information. *Id.* Furthermore, Coinco reasonably protected the information, as Coinco entered non-disclosure agreements with clients, and labeled files as "confidential." *Id.* at 310-11, 849 A.2d at 464-65.

Next, the court examined the misappropriation issue, discussing whether, "(1) the actual or threatened acquisition of a trade secret by improper means, or (2) the actual or threatened disclosure of a trade secret" occurred. *Id.* at 312, 849 A.2d at 466. The court of appeals agreed with the circuit court, which found that the trade secrets were acquired by improper means. *Id.* at 313-15, 849 A.2d at 466-67. The court stated that LeJeune selected specific confidential Coinco files containing trade secrets, and did not simply refuse to return files that were sent to him. *Id.* at 314, 849 A.2d at 467. Persuaded by LeJeune's intent to hide his possession of the trade secrets, the court found the evidence sufficient to support the finding of misappropriation. *Id.* at 314-15, 849 A.2d at 467.

The second question presented to the court was whether to enjoin LeJeune from working based on the prospect that he would inevitably disclose confidential information. *Id.* at 315, 849 A.2d at 467. First, the court agreed that injunctive relief can not remedy past misconduct, but can only remedy future action. *Id.* The court recognized that courts outside of Maryland's jurisdiction have utilized the "inevitable disclosure" theory to allow a company to guard confidential marketing strategies and secret technology. *Id.* at 318, 849 A.2d at 469. However, the court of appeals decided differently on this issue of first impression in Maryland. *Id.* at 322-23, 849 A.2d at 471-72.

Similar to California courts, the Court of Appeals of Maryland favored a public policy of employee mobility and vacated the preliminary injunction. *Id.* at 322, 849 A.2d at 471. The court found that the employees were harmed by court injunctions that restricted not only disclosure of trade secrets, but also all employment. *Id.* at 323, 849 A.2d at 472. The court agreed that because Coinco did not sign a confidentiality agreement or a covenant not to compete with LeJeune, the "inevitable disclosure" doctrine should not be employed to proffer "an ex post facto covenant not to compete." *Id.* at 321, 849 A.2d at 471 (quoting *Int'l Bus. Mach. Corp. v. Seagate Technology, Inc.*, 941 F.Supp. 98, 101 (D. Minn. 1992)). Therefore, the court rejected the "inevitable disclosure" doctrine because issuing an injunction rooted in the theory would alter the terms of employment and have the legal effect of rewriting employment contracts without permitting the employee to negotiate the individual terms. *Id.* at 322, 849 A.2d at 471.

In *LeJeune v. Coin Acceptors, Inc.*, the Court of Appeals of Maryland reaffirmed the policy in favor of employee mobility by not allowing employers to attain court-ordered benefits after employees leave their employment. Furthermore, the court expanded the pro-employee policy allowing employees to gather company trade secrets; courts will not base an inference of disclosure solely on exposure to trade secrets. The ruling in *LeJeune* painted a picture of employers taking advantage of employees by using the court system to obtain quasi-covenants not to compete. The court promptly rejected that picture, and in turn, refused to accept the theory of "inevitable disclosure." By refusing to recognize the "inevitable disclosure" theory, the court may have shifted the pendulum too far in favor of the employees. This ruling may lead to employees taking advantage of their employers, using their trade secrets knowledge to force employers to compensate them for costly non-compete and confidentiality agreements.