Nanomech v. Suresh
2013 U.S. Dist. LEXIS 128213 (W.D. Ark.)

OPINION BY DISTRICT JUDGE HOLMES:

This lawsuit concerns the claim of NanoMech, Inc. ("NanoMech") that its former employee, Plaintiff Arunya Suresh, violated the terms of a Non-Disclosure Agreement ("NDA") and a covenant not to compete contained within her Employment Agreement. NanoMech is an Arkansas-based research and development company that specializes in creating nano-technology products . . . .

The amended complaint alleges that Suresh entered into an NDA with NanoMech on March 18, 2010, when in the course of evaluating a potential employment relationship with NanoMech. During these pre-employment talks, Suresh received certain proprietary and confidential information relating to NanoMech's materials, processes and their applications, and related business plans and strategies. Under the terms of the NDA, Suresh was required to hold "in trust and confidence" these pre-employment disclosures for a period of three years after the disclosures were made. .

NanoMech ultimately hired Suresh on March 22, 2010, just four days after she signed the NDA. As a condition of her employment as a Product Engineer/Tribologist with NanoMech, Suresh executed an Employment Agreement on April 5, 2010. The Employment Agreement contained a covenant not to compete that stated that for a period of two years after the termination of Suresh's employment, she could not "directly or indirectly enter into, be employed by or consult in any business which competes with the Company." The Employment Agreement did not define what it meant to "compete with the Company," nor did it restrict the covenant's application to any particular geographical area.

As a Product Engineer for NanoMech, Suresh . . . was privy to NanoMech's confidential and proprietary product concepts and prototypes, as well as research-related reports prepared in order to attract funding for NanoMech's suite of patent-pending nano-lubrication products. Suresh also had insight into the chemistries, methodologies, and formulations for NanoMech products and was trained on the chemical aspects of nano-integrated materials and manufacturing processes.

Suresh resigned from NanoMech on May 2, 2012, after informing the company that she planned to pursue higher education for the next two to four years. ". . . [P]rior to Suresh's departure, it was discovered that she had forwarded several emails from her NanoMech email account to a personal email account." These emails allegedly contained "NanoMech's confidential, proprietary and trade secret information . . ."

In October of 2012, a member of NanoMech's management team learned that Suresh was not pursuing higher education and was instead looking for a job "in a field of technology occupied by NanoMech." NanoMech sent Suresh a letter reminding her of her obligations pursuant to the NDA and covenant not to compete. NanoMech later discovered after searching the internet that Suresh had accepted a job as an Application Chemist with a company called BASF North America ("BASF"), beginning in January 2013. The amended complaint describes BASF as "a worldwide chemical company whose portfolio of products includes, among other things, equipment and engine lubricants that compete directly with NanoMech's nGlide products, which are the subjects of a pending patent application . . . ."

The claims for relief made in the amended complaint are premised on NanoMech's assumption that, in the course of Suresh's employment as an Application Chemist with BASF, she "will inevitably disclose to BASF, if she has not already," the formulation and testing of the nGlide products. [T]here are three claims for relief in the amended complaint. The first two are for breach of contract due to Suresh's alleged violations of the NDA and the Employment Agreement's covenant not to compete. The last claim is for a permanent injunction barring Suresh from disclosing any of NanoMech's confidential information and "from employment with BASF for the remainder of the term of the non-compete provision within the Employment Agreement" * * *

A. Count I: Breach of NDA

The NDA that Suresh signed during pre-employment discussions with NanoMech pertains to confidential and proprietary information that was shared with Suresh "solely for the purpose of evaluating a potential employment relationship," from March 18, 2010, the first possible date of disclosure, until March 22, 2010, the last possible date of disclosure and date

Suresh was hired by NanoMech. * * * None of the pleadings submitted in this case describe exactly what information was shared with Suresh during that limited period of time when she was engaged in pre-employment talks with NanoMech. Instead, the amended complaint states the type of information Suresh was exposed to *during* her employment with NanoMech, including research and development of nano-particle-based products, nano-integrated materials, and specific manufacturing processes. Nevertheless, for the purpose of evaluating Suresh's motion for judgment on the pleadings, the Court will assume that Suresh acquired confidential, proprietary, or trade secret information about NanoMech and its particular products during the five-day pre-employment period covered by the NDA.

According to the plain language of the NDA, which in the Court's view appears to be a valid and binding contract, it expired three years after March 22, 2010, the last possible day that pre-employment disclosures could have been made to Suresh before she was hired by NanoMech. Therefore, the NDA expired on March 22, 2013 and is no longer in force. Suresh . . . began work for BASF, NanoMech's alleged competitor, in January of 2013 and was terminated on June 3, 2013. Therefore, the NDA was applicable to Suresh's employment with BASF from January of 2013 to March 22, 2013.

Turning now to the issue of whether NanoMech has stated a valid claim for a breach of the NDA, the elements of a breach of contract claim under Arkansas law are (1) the existence of a valid and enforceable contract, (2) an obligation on the part of the defendant, (3) a breach of that obligation, and (4) damages resulting from the breach. In considering these elements, the Court finds that NanoMech has stated sufficient facts to satisfy the first two. As for the third element, which requires a showing that a breach of a legal obligation occurred, NanoMech alleges that Suresh (1) made "hundreds of copies" of unspecified NanoMech documents, presumably with a photocopying machine, and (2) emailed certain confidential, proprietary documents concerning formulations and testing results . . . . . Because NanoMech does not plead facts to show that Suresh actually misused, divulged, or otherwise misappropriated confidential information covered under the NDA, NanoMech is reduced to arguing that Suresh "will inevitably disclose [to BASF] NanoMech's confidential, proprietary or trade secret information based on the nature of her work in the field of chemistry."

"In general, damages recoverable for breach of contract are those damages which would place the injured party in the same position as if the contract had not been breached." "Although recovery will not be denied merely because the amount of damages is hard to determine, damages must not be left to speculation and conjecture." Here, NanoMech does not contend that it has suffered any losses attributable to Suresh's alleged breach of the NDA. * * * However, NanoMech attempts to salvage its claim by arguing that pursuant to the "inevitable-disclosure doctrine" . . . this Court should find it sufficient for pleading purposes that Suresh's job as a chemist for NanoMech's competitor made it "inevitable" that she would disclose NanoMech's confidential information in the course of her new employment.

As a preliminary matter, the Eighth Circuit has neither accepted nor rejected the inevitable-disclosure doctrine, and the Arkansas Supreme Court has only theoretically approved of the doctrine's use in the limited context of issuing temporary, emergency relief for certain violations of the Arkansas Trade Secrets Act. The Trade Secrets Act may be violated through either an actual or threatened misappropriation. * * *

A search of the relevant case law reveals that there is no precedent for applying the inevitable-disclosure doctrine as NanoMech describes: to infer or impute potential losses in a breach-of-contract action. The doctrine has only been applied in Trade Secrets Act cases, particularly where plaintiffs have alleged the "threatened misappropriation of trade secrets," a discrete violation of the Act that is inherently speculative in nature. * * * By contrast, NanoMech asks the Court to assume that Suresh *must have* misused confidential information because she emailed certain documents to her personal email account and at some point went to work for NanoMech's competitor. These facts, as alleged, are insufficient to show that an actual loss or damage flowed from Suresh's breach. * * *

Therefore, NanoMech's claim for breach of the NDA will be dismissed for failure to state sufficient facts to show that the breach resulted in damages. Dismissal will be without prejudice to NanoMech's right to bring a future, non-speculative claim for a breach of the NDA if facts supporting such a claim materialize prior to the expiration of the statute of limitations.

B. Breach of Non-Compete Agreement

. . . NanoMech alleges that Suresh breached a clause in her Employment Agreement . . . that contained a covenant not to compete with NanoMech for a period of two years following her separation from the company. In general, covenants not to compete in employment contracts are disfavored under Arkansas law and thus are subject to stricter scrutiny than those connected with a sale of business. In order for a non-compete agreement to be valid, three requirements must be met: (1) the covenantee must have a valid interest to protect, (2) the geographical restriction must not be overly broad, and (3) a reasonable time limit must be imposed.

NanoMech concedes that the covenant not to compete that is embedded in the Employment Agreement fails to include a geographic restriction and instead prohibits Suresh from working *anywhere* for any business that competes with NanoMech. Nevertheless, NanoMech maintains that under Arkansas law, non-compete agreements that lack geographic restrictions are still enforceable. In support of this contention, NanoMech cites to *Girard v. Rebsamen Insurance Company*, a case in which the Arkansas Court of Appeals held that a non-compete agreement that prohibited an insurance salesman from soliciting or accepting business from customers whose accounts he serviced at the time of his termination was reasonable under the circumstances, even though the covenant contained no geographic limitation.

The *Girard* case does not apply here, as it is an exceptional, fact-driven case in which a non-compete agreement without a geographic restriction was deemed enforceable. The Arkansas Supreme Court . . . discussed the implications of *Girard* and noted that, despite the lack of geographic restrictions in Girard's non-compete agreement, it still permitted him to accept business from 95% of the overall insurance market and 80% of the customers of his former employer's office. The covenant did not, therefore, unreasonably restrict Girard's ability to work and make a living in a particular industry or across a geographic area. Instead, the covenant's restrictions were customer-specific.

NanoMech's covenant not to compete is more like the covenant in the case of *Bendinger v. Marshalltown Trowell Co*., which the Arkansas Supreme Court found to be unenforceable. Like *Girard,* the covenant in *Bendinger* contained no geographic restriction; however, unlike *Girard,* the covenant in *Bendinger* was not customer-specific but instead prohibited Bendinger from working for any company that his former employer considered a "competitor." * * * The *Bendinger* court opined:

> *Marshalltown defines "competitor" as "any company in the trowel industry that is in competition with Marshalltown for sales in the United States, regardless of where that company is located." Marshalltown suggests that the use of the word "competitor" in its agreement with Bendinger supplies a sufficient geographic restriction which this court should uphold, but that term as Marshalltown wishes to define it is not contained in the covenant, and we are unable to rewrite the restrictive covenant to supply it.* * * *

Using the same reasoning . . . , this Court finds the phrase "any business which competes" in NanoMech's Employment Agreement to be vague and undefined. NanoMech's Agreement does not supply a sufficient geographic restriction for the non-compete clause, and the Court lacks the authority to rewrite the covenant to clarify whether BASF—or any other company, for that matter—would meet NanoMech's definition of a "business which competes" against NanoMech. NanoMech's covenant is so overbroad that it cannot even be interpreted to mean that it has a nationwide limitation. Indeed, NanoMech goes so far as to suggest in its brief to the Court that the covenant not to compete could be enforced against Suresh "around the globe," and that "*[a]ny* geographic restriction within a non-compete agreement with the Defendant would not sufficiently protect NanoMech's intellectual property."

NanoMech's covenant not to compete is unreasonable and contrary to public policy because it prevents Suresh from working anywhere for a two-year period for an undefined set of "competitors" of NanoMech. . . . [T]his Court finds that the phrase "any business which competes" to be unenforceable, and no cause of action exists for a breach of an unenforceable contract. This claim will be dismissed with prejudice.

C. Permanent Injunction

. . . NanoMech requests a permanent injunction "barring Suresh from employment with BASF for the remainder of the term of the non-compete provision within the Employment Agreement, and enjoining her from disclosing any of NanoMech's confidential information." As discussed previously, the covenant not to compete contained in the Employment Agreement is unenforceable, so the Court will not issue an injunction to enforce the terms of the covenant. With regard to NanoMech's request for an injunction barring Suresh's disclosure of NanoMech's confidential information, either pursuant to the NDA or the "Confidential

Information" provision of the Employment Agreement, the legal requirements for the issuance of a permanent injunction are: (1) a threat of irreparable harm, (2) that the harm outweighs any injury which granting the injunction would inflict on other parties, (3) a likelihood of success on the merits, and (4) that the public interest favors the injunction.

First, the Court does not find that NanoMech has made a showing of irreparable harm. Suresh is no longer employed by BASF and has, in fact, filed a counterclaim against NanoMech in these proceedings, in which she maintains she was fired from BASF because of NanoMech's acts taken during the course of this lawsuit. Second, NanoMech alleges no facts that state that Suresh has actually disseminated or misappropriated NanoMech's confidential or proprietary information. * * *

The Court finds that, to the extent NanoMech requests a permanent injunction barring Suresh's *future* dissemination of proprietary information to a potential employer, the threat of irreparable harm occasioned by a future breach of contract does not justify injunctive relief. * * * The Court is not convinced that any actual or threatened disclosure of confidential information occurred, and therefore, the possibility of its occurrence in the future is too remote to justify injunctive relief. If NanoMech is able to bring a valid claim for breach of contract against Suresh in the future, injunctive relief may then be warranted. Until then, however, the Court will deny without prejudice NanoMech's request for permanent injunction for failure to state a claim. ***

CASE QUESTIONS

1. What were the legal issues in this case? What did the court decide?
2. What did the Nondisclosure Agreement (NDA) call for? Why did the former employer claim that the agreement was breached by the former employee? Why does the court disagree?
3. What did the Noncompetition Agreement call for? Why does the court conclude that this agreement is unenforceable?
4. This decision mentions in passing that the former employee was terminated by her new employer and is suing Nanomech for this. What do you think happened here? How does the existence of restrictive covenants complicate post-employment life for both the former employee and prospective new employers?
5. What should Nanomech have done differently?

Courts consider a number of factors when deciding whether to enforce noncompetition agreements (by issuing injunctions against former employees or awarding damages for breach of contract), and their willingness to do so varies considerably across states. California's courts have been especially prone to invalidating noncompetition agreements.[76] As with any other contracts, restrictive covenants must be supported by consideration. For newly hired employees, being allowed to commence employment appears to be sufficient. But to impose noncompetition agreements on existing employees, some additional benefit beyond continuation of employment is likely needed.[77] Courts regularly state that noncompetition agreements are disfavored as restraints on trade, and they will be enforced only if former employers can bear the burden of showing that the restraint is no greater than necessary to protect legitimate business interests. The employer's need for the agreement is balanced against its detrimental effect on the former employee's ability to earn a living and its effect on the public.[78] Valid employer interests in this context include the protection of trade secrets and other confidential information, protection of customer relationships, and possibly protection of employers' investments in training employees. The simple desire to be shielded from business competition is not sufficient to

[76] *Edwards II v. Arthur Andersen,* 44 Cal. 4th 937 (2008).
[77] *Creech, Inc. v. Brown,* 2014 Ky. LEXIS 233.
[78] *Modern Environments v. Stinnett,* 561 S.E. 2d 694, 695 (Va. 2002).