Supreme Court New York County
IAS Part 25

DOUBLECLICK INC.
v.
HENDERSON

November 12, 1997

Justice DeGrasse

DOUBLECLICK INC. v. HENDERSON--In this action alleging, inter alia, misappropriation of trade secrets, unfair competition, and breach of employees' duty of loyalty, plaintiff DoubleClick, Inc. ("DoubleClick") moves for a preliminary injunction to bar its former employees, defendants David Henderson, Jr. ("Henderson") and Jeffrey A. Dickey ("Dickey") from engaging in business activities in competition with DoubleClick.

FACTS

The Parties

DoubleClick is engaged in the relatively new and fast-growing business of selling advertising on the Internet. Headquartered in New York City, DoubleClick was formed in 1996 from the merger of two entities engaged in Internet advertising, a division, known as DoubleClick, of the advertising agency Bozell, Jacobs, Kenyon & Eckhardt, Inc. ("Bozell"), and a company known as the Internet Advertising Network.

DoubleClick has two sets of clients: web sites and advertisers. It has entered into agreements with a network of approximately 75 popular web sites to sell advertising space on the sites. DoubleClick and the web sites split the advertising revenue generated by DoubleClick's efforts.

Advertisers also pay DoubleClick for access to its network of web sites. By negotiating a single contract with DoubleClick an advertiser can have its ad shown on all of the web sites in the DoubleClick network without having to enter into negotiations with each web site. Advertisers may also choose to focus their advertisements on certain web sites in the DoubleClick network.

Advertisements at web sites frequently appear as "banners" which a viewer may "click on" to learn about a product. A banner is a link to a web site maintained by the company selling the product. For example, when an individual visits a web site devoted to fly fishing, perhaps to seek out information on local fishing conditions, she would likely pass through pages in the web site that included banners for companies making rods, reels, and other paraphernalia associated with the sport, as well as banners for non-fishing products, such as sport utility vehicles, aimed at a larger group of which fly fishers are a subset. If

this person so chose, she could then click on the banner for a given company to learn more about its products.

Among the services that DoubleClick has developed are a proprietary advertisement delivery system that distributes advertisements to web sites in its network in a matter of milliseconds, a system that causes certain ads to appear when a user uses certain search terms, and a number of technologies designed to gauge the effectiveness of the advertisements. DoubleClick also claims a competitive advantage by virtue of the quality of its network, which it claims includes a number of the most-visited web sites.

DoubleClick claims to have generated significant proprietary information concerning its sales and marketing strategies, financial projections and results, requirements of its advertisers, and the success of its clients' ads. It also generated a business plan in 1996 that sets forth its long-term goals and strategies ("DoubleClick 1996 Business Plan"). This document was shown to venture capital firms. DoubleClick contends that these various categories of information are all trade secrets.

There is evidence in the record that the Internet advertising business is an extremely competitive one, with a variety of companies using different software and sales techniques to maximize the effectiveness of its clients' advertising.

Defendant Dickey was hired in October 1995 by Poppe, Tyson, a subsidiary of Bozell, to work for the original DoubleClick. As Vice President of Business Development Dickey worked on a variety of matters for DoubleClick out of its California Offices. Dickey was sufficiently senior that he had access to most of the information that DoubleClick claims herein is confidential, including its 1996 Business Plan, its revenue projections, plans for future projects, pricing and product strategies, and its various databases with information concerning DoubleClick's clients. When he was hired Dickey entered into an agreement with Bozell to maintain the confidentiality of information provided by its clients, and a covenant not to compete for Bozell's clients for one year after leaving Bozell. The parties dispute whether either agreement is applicable to the events described in the complaint.

Defendant Henderson came to DoubleClick in March 1996, partly on Dickey's recommendation, as Vice President of North American Advertising Sales. Based in DoubleClick's headquarters in New York City, he was responsible for hiring, training and managing DoubleClick's sales force. Henderson was a member of DoubleClick's management team and the company's highest paid employee. Henderson had access to all the allegedly confidential company information that Dickey was privy to, and in addition was given highly confidential documents when he attended DoubleClick's management and Board of Directors meetings. These documents were distributed to DoubleClick's top managers at the beginning of the meetings and then collected at the end. They concerned, inter alia, summaries of operations, revenue and expense analyses, analytical summaries of financial indicators, and other highly confidential information. Like Dickey, Henderson entered into a confidentiality agreement with Bozell upon his employment. Henderson did not enter into a covenant not to compete.

B. Henderson's and Dickey's plans to Leave DoubleClick and Start Their Internet Advertising Business

Henderson alleges in his affidavit that he gradually became dissatisfied with the way that DoubleClick was run, and that his dissatisfaction came to a head when he was offered a job in early 1997 by America Online ("AOL"), an on-line service. Henderson took AOL's offer of employment to DoubleClick's CEO, Kevin O'Connor, who made a counter-offer which Henderson accepted. Henderson alleges that DoubleClick failed to comply with the terms of their agreement. By the "early summer" of 1997, Henderson "came to the conclusion that DoubleClick was not going to provide me with the long-term career opportunities I had expected when I joined the company the previous year." (Affidavit of David Henderson ["Henderson Aff."], sworn to October 3, 1997, P42.)

In July 1997 Henderson and Dickey both attended an industry-wide trade conference in Colorado. At the conference they discussed their dissatisfaction with DoubleClick's direction and resolved to start their own company, Alliance Interactive Network ("Alliance"). Upon their return to their respective offices, Dickey and Henderson began to take steps to make their company a reality, including drafting a business plan, seeking out investors and customers, and entering into discussions with at least one other DoubleClick employee.

According to his affidavit, Kevin Ryan, DoubleClick's President, received a tip on September 2, 1997 that Henderson and Dickey were planning on leaving DoubleClick to start their own Internet advertising company. Ryan and O'Connor went to Henderson's office the next day and confronted him with this allegation, which Henderson did not deny. Ryan and O'Connor fired Henderson on the spot and instructed him to remove his personal property from the office.

Ryan confiscated O'Connor's laptop computer. Information retrieved from this laptop's hard drive, including saved e-mail messages, a draft of Alliance's business plan, and other strategic documents, provides much of the evidence offered in support of plaintiff's motion.**1**

DISCUSSION

In order to demonstrate that it is entitled to a preliminary injunction DoubleClick must show a probability of success on the merits, danger of irreparable injury in the absence of a preliminary injunction and a balance of the equities in its favor. (Aetna Ins. Co. v. Capasso, 75 NY2d 860; CPLR 6312.) The Legislature added a new subdivision (c) to CPLR 6312 effective January 1, 1997, to make clear that the existence of an issue of fact on a motion for a preliminary injunction is not, standing alone, a sufficient basis for denying a preliminary injunction. This amendment was designed to overcome the language of several judicial opinions that held that a preliminary injunction must be denied whenever the party opposing the motion demonstrates that the facts are in "sharp dispute." (Cf. BR Ambulance Service, Inc. v. Nationwide Nassau Ambulance, 150 AD2d 745.)

A. Likelihood of Success on the Merits

DoubleClick has asserted numerous claims against the defendants. In arguing that it is likely to succeed on the merits DoubleClick leads with its claims that defendants misappropriated trade secrets, engaged in unfair competition, and breached their duty of loyalty. As discussed below, DoubleClick has demonstrated that it is likely to succeed on these three claims, and it is therefore unnecessary to consider plaintiff's remaining claims.

1. Misappropriation of Trade Secrets

The elements of a cause of action for misappropriation of trade secrets are that 1) plaintiff possesses a trade secret and 2) defendant is using that trade secret in breach of an agreement, confidence, or duty, or as a result of discovery by improper means. (See Integrated Cash Management Services. Inc. v. Digital Transactions. Inc., 920 F2d 171, 173.)

The parties agree that the courts of this state have adopted the definition of trade secret set forth in the Restatement of Torts: "any formula, pattern, device, or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." (Restatement of Torts, ß757, comment b; Ashland Management v. Janien, 82 NY2d 395, 407.)

The Restatement lists several factors to be considered in evaluating a claim of trade secrecy:

> (1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the business] to guard the secrecy of the information; (4) the value of the information to [the business] and [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.
>
> (Restatement of Torts ß757, comment b.)

As top executives at DoubleClick, Dickey and particularly Henderson had access to highly sensitive information regarding the company, including its revenue projections, plans for future projects, pricing and product strategies, and databases containing information collected by DoubleClick concerning its clients. Defendants do not seriously dispute that they had access to this array of information, nor that the information could be of great use to any competitor of DoubleClick.

Defendants argue instead that the information that DoubleClick seeks to protect is not kept confidential by DoubleClick and is actually published on DoubleClick's own web site. Therefore, defendants argue, the information cannot qualify as a trade secret. This

assertion is not borne out by the record. The web site describes DoubleClick's business in generalities; it does not contain the proprietary information generated by DoubleClick specified in plaintiff's papers as trade secrets.

For example, information concerning the quantity and quality of visits to advertisements posted on the various web sites that make up DoubleClick's network is not provided by DoubleClick's own web site. Nor is information concerning DoubleClick's actual financial arrangements with its clients provided. Defendants make much of the fact that DoubleClick's "rate card," i.e. prices charged to advertisers, is posted on the web site. However, DoubleClick states that pricing in the Internet advertising business is "deal driven" and tailored to the needs of individual clients. Defendants' own business plan for Alliance supports this assertion. (Affidavit of Wenda Harris Millard, sworn to October 14, 1997' at PP27-30, Exh. A.)

There is substantial evidence in the record that defendants misappropriated DoubleClick's trade secret information in derogation of their duties as DoubleClick employees.**2**

Dickey and Henderson were privy to the actual rates charged DoubleClick's clients. A document copied from Henderson's computer, titled "Stakeholder Positioning Analysis," gives rise to a strong inference that Dickey and Henderson were prepared to use this confidential information to compete directly for DoubleClick's web site clients. This document refers to DoubleClick's "margin" also known as "site share," which is the percentage shares that DoubleClick and a client web site split from advertising revenues. The Stakeholder Positioning Analysis indicates that defendants intended to advise Alta Vista, DoubleClick's largest client, that DoubleClick's percentage share of advertising revenues generated at the Alta Vista web site is too high. (See Affidavit of Kevin O'Connor, sworn to September 18, 1997 ("O'Connor Aff.") Exhibit 9.)

In his affidavit, Henderson states that the Stakeholder Positioning Analysis was merely a strategic exercise, and that he and Dickey had decided not to pursue such an aggressive strategy in wooing DoubleClick's clients. However, Henderson states only "that I agreed to take the high road by not making disparaging remarks about DoubleClick." (Henderson Aff. P54.) Tellingly, he does not state in his affidavit that he will not use DoubleClick's margin information. At the least, the Stakeholder Positioning Analysis demonstrates that defendants have sensitive proprietary information regarding DoubleClick's pricing, and have at least contemplated using such information to compete against their former employer.

Additionally, the draft Alliance business plan found on Henderson's computer discloses the number of visits to various web sites in the DoubleClick Network and the current sales for each site. Plaintiff claims that this information is confidential, and defendants have brought forth no evidence to refute this claim. Defendants do not assert that this information is published on DoubleClick's web site or made public in any way. It is undisputed that the draft Alliance business plan was e-mailed to a person whom plaintiff characterizes, without contradiction from defendants, as "an industry consultant with ties to DoubleClick's competitors." (O'Connor Aff. P18.)

DoubleClick's confidential information about its pricing and customers constitutes trade secrets. Based on evidence of actual misappropriation of this information, DoubleClick has adequately demonstrated likelihood of success on the merits on its misappropriation of trade secrets claim. (E.g. Support Systems Assocs., Inc. v. Tavolacci, 135 AD2d 704, 706; Magnification Systems of Oneonta, N.Y. Ltd. v. Minuteman Optical Corp., 135 AD2d 889; Webcraft Technologies. Inc. v. McCaw, 674 F Supp 1039.)**3**

This finding is bolstered by the fact that there is a high probability of "inevitable disclosure" of trade secrets in this case. Injunctive relief may issue where a former employee's new job function will inevitably lead her to rely on trade secrets belonging to a former employer. In Lumex Inc. v. Highsmith (919 F Supp 624 [EDNY 1996]) the court granted an injunction preventing a management representative from working with a competitor of plaintiff. The court held that the former employee would likely disclose plaintiff's trade secrets "to aid his new employer and his own future ... . [Defendant] was privy to the top secret Cybex product, business and financial information. He cannot eradicate these secrets from his mind." (Id. at 631; PepsiCo Inc. v. Redmond, 54 F3d 1262, 1269.)

In the instant case it appears to the court that the defendants will inevitably use DoubleClick's trade secrets. Like the executive in Lumex, the centrality of Henderson and Dickey in DoubleClick's operations makes it unlikely that they could "eradicate [DoubleClick's] secrets from [their] mind." (Lumex supra, 919 F Supp at 631.) Moreover, the actual use of DoubleClick's trade secrets described above, and other actions discussed below, demonstrate defendants' cavalier attitude toward their duties to their former employer. This gives rise to a reasonable inference that they would use DoubleClick's confidential information against it.

For the above-stated reasons, DoubleClick has demonstrated that it is likely to succeed on its misappropriation of trade secrets claim.

2. Duty of Loyalty

It is well-established in the law of this state that an employee "is prohibited from acting in any manner inconsistent with his agency or trust and is at all times bound to exercise the utmost good faith and loyalty in the performance of his duties." (Lamdin v. Broadway Surface Adv. Corp., 272 NY 133.) While an employee may secretly incorporate a competitive business prior to his departure, he must not "use his principal's time, facilities or proprietary secrets to build the competing business." (Maritime Fish Products Inc. v. World Wide Fish Products. Inc., 100 AD2d 81, 88, appeal dismissed 63 NY2d 675; see 7th Sense, Inc. v. Liu, 220 AD2d 215.)

While Henderson tries to minimize his use of DoubleClick's facilities and time by stating that he did much of his work for Alliance while on vacation in August, it is clear that he used the company computer and e-mail service to build Alliance. While the parties dispute which portions of the DoubleClick 1996 Business Plan were used in drafting

Alliance's business plan, defendants do not deny that they used this DoubleClick document, even if it was only for formatting purposes, to further their own plans to launch Alliance. There is also evidence that defendants used DoubleClick's spreadsheets to draft projected spreadsheets for Alliance. Additionally, Henderson does not deny that he engaged in some Alliance-related activities during company time.

Henderson admits that he and Dickey met with a potential client on behalf of DoubleClick, and after making a presentation on behalf of DoubleClick then made a presentation regarding Alliance. (Henderson Aff. P58.) The solicitation of an employer's potential customers by an employee for the employee's planned competitive business constitutes a breach of the duty of loyalty. (E.g. Maritime Fish, 100 AD2d at 89-90.)

Additionally, plaintiff has offered e-mail dated September 2, 1997, from Henderson's computer that demonstrates that Henderson solicited financing for Alliance from Match Logic, one of DoubleClick's competitors, in exchange for 2000 hours of "consulting time" from Alliance. while the precise content of this proposed "consulting" is not clear from the record, it is problematic that Henderson and Dickey would begin advising a DoubleClick competitor so soon after leaving DoubleClick given defendants' access to, and use of, DoubleClick's trade secrets. The e-mail indicates that Match Logic was sufficiently worried about defendants' activities to require that they indemnify Match Logic as part of the deal. (O'Connor Aff. Exh. 5.)

These facts demonstrate that plaintiff is likely to succeed on the merits of its claim sounding in breach of the duty of loyalty.

3. Unfair Competition

A claim of unfair competition will lie where a former employee misappropriates and exploits confidential information belonging to her former employer in abuse of her relationship of trust. (E.g. Comprehensive Community Development Corp. v Lehach, 223 AD2d 399; Advanced Magnification Instruments, supra, 135 AD2d 889.) The facts recited above that tend to show that Dickey and Henderson engaged in misappropriation of trade secrets and breached their duty of loyalty to DoubleClick also show that plaintiff is likely to succeed on the merits of this claim as well.

B. Irreparable Harm

Irreparable harm is presumed, where, as here, trade secrets have been misappropriated. (Lumex, supra, 919 F Supp at 628.) Defendants have offered nothing to rebut this presumption.

Even absent the presumption, plaintiff has demonstrated that it will suffer irreparable harm without the issuance of a preliminary injunction. Defendants have demonstrated that they have no compunction against using DoubleClick's business information to compete against it. The damage that could be inflicted upon DoubleClick by defendants' exploitation of their intimate knowledge of DoubleClick's proprietary information is

impossible to quantify in dollar terms. Accordingly, an injunction is the appropriate remedy.

C. Balance of Eguities

Plaintiff has demonstrated that the balance of equities tips in its favor. DoubleClick operates in a competitive and fastchanging business environment where the use of its proprietary information could cause it real harm. Defendants have not demonstrated that DoubleClick has acted tortiously against them or is otherwise without "clean hands."

By contrast, equity does not favor the employee who seeks to breach his fiduciary duties to his former employer. (See Kaufman v. International Business Machines Corp., 97 AD2d 925, 926, aff'd 61 NY2d 930.) Here, there is substantial evidence that defendants 1) used DoubleClick's proprietary information to prepare for the launch of Alliance and to position it to compete with DoubleClick, 2) worked on their plans for their new company during working hours at DoubleClick and used resources given to them by DoubleClick to do so, and 3) sought customers and financing for Alliance without regard to their duties to their current employer. Plaintiff has been able to marshall these facts without the benefit of discovery.

Dickey and Henderson are correct that the broad preliminary injunction sought in the complaint would effectively bar them from working in any capacity selling or placing advertising on the Internet, or from even working for a company that engaged in a marginal way in the Internet advertising business. However, apart from references to the fact that Dickey and Henderson are apparently the only bread winners in single income families, defendants have done nothing to demonstrate what financial hardship they would suffer if the injunction were imposed.

In any event, the injunction set forth below is more narrowly drawn than the preliminary injunction sought in the complaint.

REMEDY

The parties spend little time in their papers discussing the tailoring of a preliminary injunction. In its reply papers plaintiff scales back its proposed injunction to one "enjoining defendants for a period of at least twelve months from launching a competitive business or from working for a direct competitor of DoubleClick." (Plaintiff's Reply Memorandum of Law at 2.) This language is not sufficiently tailored. Both defendants have previously worked for companies placing advertisements in other media. Plaintiff's proposed injunction would prevent Dickey and Henderson from working for such a company if it engaged in Internet advertising even as a marginal part of its business. There can be no objection to defendants working for companies that engage in advertising in an array of media, including the Internet, so long as they do not get involved in the company's Internet advertising projects.

Moreover, the one-year period sought by plaintiff is too long. Given the speed with which the Internet advertising industry apparently changes, defendants' knowledge of DoubleClick's operations will likely lose value to such a degree that the purpose of a preliminary injunction will have evaporated before the year is up. Accordingly, the preliminary injunction issued below shall expire after six months from the date of this opinion. Plaintiff may for good cause move to extend the life of the preliminary injunction.

It is hereby ORDERED that:

Defendants are enjoined, for a period of six months from the date of this opinion, from launching any company, or taking employment with any company, which competes with DoubleClick, where defendants' job description(s) or functions at said company or companies include providing any advice or information concerning any aspect of advertising on the Internet. A company shall be presumed to compete with DoubleClick if it provides advertising software, advertising services, or a mix of advertising software and advertising services, to any entity seeking to advertise on the Internet, or to any web site seeking advertisers.

Nothing herein shall be construed to prevent defendants from for any employer that competes with DoubleClick, so long defendants' job description(s) or functions with such employer do not include providing advice or information concerning any aspect of advertising on the Internet.

Defendants are also enjoined, for a period of six months from the date of this opinion, from providing any advice or information concerning any aspect of advertising on the Internet to any third parties who 1) work for defendants' employer(s), or 2) provide or promise to provide any of the defendants with valuable consideration for the advice or information, or 3) share or promise to share any financial interest with any of the defendants.

The parties shall agree to an expedited discovery schedule that shall provide for, inter, alia, the completion of depositions of Henderson and Dickey, and of two representatives of plaintiff chosen by defendants, within 60 days of the date of this opinion. Other depositions and discovery shall be completed within 5 months of the date of this opinion.

The foregoing constitutes the decision and order of the court.

Notes

(1) DoubleClick personnel also confiscated Dickey's laptop. Plaintiff contends that it was unable to access any files from this computer because Dickey "booby-trapped" it to delete files if someone tried to access the files without the proper password. Dickey contends that the laptop was simply a "lemon" that had crashed several times before, and that DoubleClick personnel could have easily forestalled the erasure of files caused by the machine's malfunction.

(2) As employees of DoubleClick defendants owed their employer a duty not to divulge confidential information, therefore it is not necessary to determine the viability of the confidentiality agreements and Dickey's covenant not to compete. "Even in the absence of a contract restriction, a former employee is not entitled to solicit customers by fraudulent means, the use of trade secrets, or confidential information." (Support Systems Assocs., Inc. v. Tavolacci, 135 AD2d 704, 706.)

In any event these agreements do not on their face unambiguously apply to the events at issue herein. The agreements were with DoubleClick's former corporate home, Bozell, and Bozell's subsidiaries. It is not clear that the parties intended DoubleClick to succeed in Bozell's interest once it became independent of Bozell. Indeed, DoubleClick admits that it had circulated new confidentiality agreements to its employees once it became independent of Bozell. Dickey and Henderson had not signed their new confidentiality agreements when they were fired. (Affidavit of Kevin Ryan, sworn to September 18, 1997, P26.) Additionally, the confidentiality agreements protect only information designated as confidential by Bozell's clients, not information generated by Bozell.

(3) DoubleClick offers an e-mail message off of Henderson's computer in which Henderson states that he "cut and pasted" DoubleClick's 1996 Business Plan to create Alliance's draft business plan. (O'Connor Aff., Exh. 1.) The parties spend a good deal of time arguing whether DoubleClick's 1996 Business Plan should be considered a trade secret. The extent to which the DoubleClick Plan was distributed to its employees and potential investors, and hence whether the document was kept sufficiently confidential by DoubleClick to qualify as a trade secret, cannot be resolved on the record before the court. Moreover, even if the DoubleClick Plan does qualify as a trade secret the record is unclear as to whether the plan was actually misappropriated by defendants. Henderson states that he only used the "format" of the DoubleClick plan, implying that he did not crib its substance. (Henderson Aff. P55.)