

Disclosure agreement bars competing product

Pesticide-maker wins preliminary injunction

By Eric T. Berkman

The manufacturer of a tree pesticide injection system was entitled to a preliminary injunction barring its former distributor from selling a competing product that the distributor allegedly patterned after the manufacturer's product, a U.S. District Court judge has ruled.

The parties' sales agency agreement contained a non-disclosure provision prohibiting the defendant distributor, which also made and sold pesticide products of its own, from attempting to replicate the plaintiff manufacturer's products or processes while the agreement remained in effect. The agreement also included a non-competition clause barring the defendant from making or selling products that replicated the plaintiff's proprietary injection system for two years after termination of the agreement.

The plaintiff, Arborjet, sued defendant Rainbow Treecare Scientific Advancements for breach of contract when the defendant terminated the agreement and started selling a product called ArborMectin that was similar to the plaintiff's product, "TREE-age."

The defendant contended that the non-compete limited the applicability of the non-disclosure provision to the plaintiff's injection system. Accordingly, the defendant argued, applying the non-disclosure clause in the case would create a broader non-competition provision than intended by the parties.

But Judge Nathaniel M. Gorton disagreed.

"[T]he fact that [ArborMectin] ... has dif-

ferences from TREE-age is immaterial," Gorton wrote, granting the plaintiff's request for a preliminary injunction. "Rainbow promised not to engage in activities 'intended to replicate' Arborjet's products. Plaintiff has demonstrated a likelihood that it will be able to prove that defendant engaged in research and development to create a product very similar to TREE-age. In fact, Rainbow's product has since been marketed as an 'improved TREE-age.'"

The 19-page decision is *Arborjet, Inc. v. Rainbow Treecare Scientific Advancements, Inc.*, Lawyers Weekly No. 02-598-14. The full text of the ruling can be found at masslawyersweekly.com.

'Somewhat careless?'

David B. Mack, a business litigator in Burlington, said the case is interesting in that the plaintiff did not allege that the defendant actually misappropriated trade secrets or confidential information in developing its competing product yet still convinced the court that an injunction was necessary to prevent irreparable harm.

"Typically, in a business-to-business non-competition context, a company is on solid ground if it does not use another's confidential information to gain a leg up following termination of the relationship," said Mack, who practices at O'Connor, Carnathan & Mack and who was not involved in the case.

He added that the difference here may have been the plaintiff's careful inclusion of a broadly worded restrictive covenant in the sales agency contract, noting that the defendant appeared to be "somewhat careless" in how it marketed its competing



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product after termination of the contract.

"These facts, combined, persuaded the court not only that the defendant had breached the contract but also that the plaintiff's goodwill and reputation would be damaged in the absence of an injunction," he said.

Counsel for the plaintiff, Kristen Schuler Scammon of Torres, Scammon & Day, said in a prepared statement she and her client agree with Gor-

ton's decision that Rainbow likely breached its agreement not to replicate Arborjet's products while under contract to distribute those same products.

The defendant's lawyer, Matthew P. Horvitz of Goulston & Storrs in Boston, said his client is appealing the injunction, but he declined to comment further.

Alleged breach

Woburn-based Arborjet began selling TREE-age, an emamectin benzoate-based pesticide, in 2008. It quickly became one of the manufacturer's most successful products.

The pesticide is used with Arborjet's proprietary injection system to protect trees from the emerald ash borer and other pests.

In 2006, Arborjet entered into a sales agency agreement with defendant Rainbow, a Minnesota company that distributes other companies' products while also manufacturing and distributing tree pesticides of its own. Rainbow became the distributor for the full line of Arborjet products, including TREE-age.

During negotiations, Arborjet was apparently concerned that if it allowed Rainbow to distribute its products, Rainbow would use its distributorship to expand its own market while copying Ar-

borjet's most popular products and using them to poach Arborjet customers.

Accordingly, the parties incorporated "Section Three," a confidentiality and nondisclosure agreement, into the contract. Under the provision, Rainbow agreed that it would not engage in affairs intended to replicate Arborjet products or processes as long as the contract remained in effect.

The parties also incorporated "Section Six," a non-competition provision in which Rainbow promised — for a period of two years after termination of the sales agency agreement — not to manufacture, buy, sell or deal "systemic injection systems" that replicated Arborjet's system of using a plug that seals the formulation into the tree's xylem and a needle that injects behind the plug.

According to Arborjet, Rainbow began developing and testing ArborMectin, a product intended to replicate TREE-age, but apparently without using the proprietary Arborjet injection system, as early as 2011, when the sales agency agreement was still in effect.

Arborjet did not, however, claim that Rainbow wrongfully misappropriated its confidential information in doing so.

Rainbow voluntarily terminated the sales agency agreement with Arborjet in 2013 and, in 2014, announced it would begin dis-

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COURT: U.S. District Court

ISSUE: Was the manufacturer of a tree pesticide injection system entitled to a preliminary injunction barring its former distributor from selling a competing product that it allegedly patterned after the manufacturer's product?

DECISION: Yes

tributing ArborMectin and sent a blast email to customers with the subject line: "Improved TREE-age! NEW ArborMectin Speed VIDEO." The defendant's website characterized ArborMectin as a replacement for TREE-age.

Last month, Arborjet filed suit against Rainbow alleging breach of contract, bad faith and false advertising in violation of the federal Lanham Act, and moved for a preliminary injunction.

Likelihood of success

Addressing the plaintiff's motion, Gorton found a likelihood that its breach-of-contract claim would succeed on the merits.

In so ruling, the judge rejected the defendant's argument that Section Six, the non-compete provision, should limit application of Section Three to the replication of the plaintiff's proprietary injection system.

First, Gorton said, Section Six governed the extent of non-competition after termination of the sales agency agreement, while Section Three pertained to Rainbow's activities while the agreement was in force.

The defendant, by contending that ArborMectin — which has a lower toxicity and viscosity than TREE-age — did not "replicate" TREE-age, relied on an overly specific formulation of the term "replicate," the judge said.

By signing the nondisclosure agreement, the defendant agreed not to do anything "intended to replicate" Arborjet's

products, and the plaintiff was likely to prove that the defendant did, in fact, engage in research and development to create a very similar product to TREE-age, Gorton said.

Additionally, he continued, "[it is] unreasonable to restrict the scope of the contract as prohibiting only an exact replica of TREE-age in light of Arborjet's particular, expressed concern about direct competition with its own products. Under the contractual interpretation advanced by the defendant, even the most trivial change to TREE-age would negate its contractual obligation."

Gorton further found that if he did not grant a preliminary injunction, the plaintiff risked irreparable harm in the form of damaged reputation and customer relations.

Accordingly, the judge ordered that the defendant be enjoined from marketing and selling ArborMectin during the pendency of the litigation.

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