The Inevitable Disclosure Doctrine: Inequitable Results are Threatened but Not Inevitable

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The Inevitable Disclosure Doctrine:
Inequitable Results Are Threatened But Not Inevitable

by
ADAM GILL

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Many employers today face the critically important problem of preventing trade secret misappropriation by departing employees.\(^1\) This is a result of several factors. First, intellectual property is becoming an increasingly valuable part of corporate assets. Second, as the importance of intellectual property is on the rise, so is employee mobility and turnover.\(^2\) Additionally, trade secret protection is fragile, and only exists as long as the protected information remains a secret.\(^3\) Once the secret is out, it is not recoverable.\(^4\) This combination presents employers with an increasing problem of protecting themselves from departing employees who take valuable trade secrets with them when they leave. Compounding the problem for many employers is that direct evidence of misappropriation is rare, so a trade secret claim can be very difficult to prove. For example, if an employee leaves a job and takes a trade secret customer list to use at a new job, it would be difficult for her previous employer to prove whether she contacted a customer legitimately, or whether she had illegally used misappropriated information.

However, employers do have legal protection. The Uniform Trade Secret Act (UTSA), which has been adopted in the vast majority of states,\(^5\) including California,\(^6\) allows courts to enjoin actual or threatened misappropriation. In recent years, companies have increasingly and successfully sought injunctions for threatened misappropriation.\(^7\) Some employers have successfully enjoined

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1. A study by the American Society for Industrial Security International showed a 323 percent increase in reported trade secret theft since a similar survey only four years prior. Susan Street Whaley, Student Author, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. Cin. L. Rev. 809 (1999).

2. A recent study done by the American Management Association shows the overall annual employee turnover rate in American businesses to be over sixteen percent. The numbers are much higher in technology companies, which have an annual turnover rate of twenty-five percent. David Essex, *Employee Turnover, the Costs Are Staggering* [http://www.itworld.com/Career/1993/ITW2491/> (Sept. 11, 2000).


4. *FMC Corp. v. Taiwan Giant Industrial Co.*, 730 F.2d 61, 63 (2d Cir. 1984).

5. Whaley, supra n.1, at 809 n.3 (listing some form of UTSA adoption in forty-two states and the District of Columbia).


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former employees from working for a competitor, arguing that the new employment will lead to the “inevitable” disclosure of the former employer’s trade secrets. This inevitable disclosure doctrine (“IDD”) has received a lot of attention since the Seventh Circuit’s decision in Pepsico, Inc. v. Redmond. In Pepsico, the Seventh Circuit upheld an injunction that prevented a former Pepsico executive from assuming his duties in a new job with a competitor, finding that his new position would inevitably lead him to rely on Pepsico’s trade secrets.

The IDD is not without its detractors. Critics of the doctrine cite its “all or nothing” results, and the inequities of its application. Much of this criticism comes from the fact that the IDD, under the umbrella of trade secret protection, enjoins employees from taking new jobs not just when misappropriation has not been proven, but when none has ever occurred. The doctrine has also been attacked for conferring unanticipated benefits on employers at the expense of employees, and for doing so without consideration to the employee.

The IDD was recently rejected by the California Court of Appeal in Schlage Lock Co. v. Whyte. Before Schlage Lock Co., there was no published California decision on whether the IDD applied in California. The California Court of Appeal had previously adopted the IDD in Electro Optical Industries v. White, which was subsequently ordered depublished by the California Supreme Court. Several Federal district courts have addressed the issue using California law and have split on whether the IDD applies in California.

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8. See e.g. Pepsico, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).
9. Pepsico, 54 F.3d at 1263; Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1118 (N.D. Cal. 1999) (“The PepsiCo decision has given new life to the theory of inevitable disclosure”).
10. Id.
11. For a discussion of the problems of the IDD, see infra section II.
12. See infra section II (c).
14. See id. at *1.
16. See Bayer, 72 F. Supp. 2d at 1119 (holding that the IDD does not apply under California law); Maxxim Med., Inc. v. Michelson, 51 F. Supp. 2d 773, 787 (N.D. Tex. 1999) (adopting the IDD using California law and a Pepsico-like analysis); Danjaq LLC v. Sony
The IDD does not have to be a doctrine with such all or nothing consequences. California courts, in applying the doctrine, can and should use other means to ensure that the IDD is applied fairly and protects all of the legitimate interests. This note will examine the IDD, its potential adoption in California, the potentially inequitable consequences the doctrine, and will discuss ways that the courts can mitigate the inequities that can result from its application. Part I presents an introduction and background to trade secret law and the IDD. Part II is a discussion of the IDD and its increasing use, including the potential adoption of the IDD in California, and highlights the potential pitfalls of the IDD’s application. Part III presents proposals for the potential future application of the IDD that should be used to mitigate the problems of the doctrine.

I

Introduction and Background

A. Trade Secret Law Generally

The recognition of some form of legal action for trade secret misappropriation can be traced back to the Roman Empire. Actio servi corrupti was a cause of action created by Roman courts to protect slave owners from attempts to coerce or induce slaves into disclosing their owners’ confidential information. The remedy available was twice the amount of actual damages. American courts did not provide a damages remedy to the common law tort of trade secret misappropriation until 1837, and the first injunction was not issued until 1866.

In 1979, the National Conference of Commissioners on Uniform State Laws published the Uniform Trade Secrets Act (UTSA) in an effort to codify the common law, which was largely based on the First Restatement of Torts. As noted, most states have codified their


18. Id. at 31-32.
19. Id. at 32.
20. Id. at 33.
trade secret law through the adoption of the UTSA. The UTSA defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process that: i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. This broad definition includes any information that is of potential economic value to the plaintiff, and that derives some of its value from not being known to the public.

There must also be actual or threatened misappropriation in order for injunctive relief to be available. Misappropriation is the disclosure or use of another's trade secret without the holder's express or implied consent, when, at the time of the disclosure or use, that person knew or had reason to know that his or her knowledge of the trade secret was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use. Misappropriation occurs when trade secret information is acquired through improper means or through a breach of confidence. The usual remedy for trade secret misappropriation is an injunction, although damages can be awarded. In deciding whether to issue a preliminary injunction, there are two factors a court must examine. The first is the likelihood that the requesting party will ultimately prevail on the merits, and the second is a balancing of the harm that the requesting party is likely to sustain if the injunction is denied against the harm to the enjoined party if the injunction is granted.

B. The Inevitable Disclosure Doctrine

When actual misappropriation or overt threats to misappropriate

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22. Whaley, supra n.1 at 809 n. 3 (listing some form of UTSA adoption in forty-two states and the District of Columbia).
27. Merges, supra n.17 at 65.
29. IT Corp. v. County of Imperial, 35 Cal. 3d 63, 69 (1983).
30. Id.
have not been alleged, some courts have used the IDD to find threatened misappropriation, holding that disclosure is inevitable when an untrustworthy former employee leaves, or when a former employee could not help but use trade secret information in the course of his new employment.\textsuperscript{31} The IDD should not create a new action or remedy, but should be used as a way for the courts to balance the evidence and considerations when deciding to issue an injunction due to the threatened misappropriation of trade secrets.\textsuperscript{32} The name of the doctrine stems from the courts finding that the threatened misappropriation comes from inevitable disclosure of the secrets, as opposed to misappropriation being literally threatened. To explain the IDD in simpler terms, "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."\textsuperscript{33} The problem with this statement of the IDD is that it encompasses a wide range of potential situations, but provides little guidance on the standards to be used.

The IDD was first developed and used by an Ohio Court of Appeals in \textit{B.F. Goodrich v. Wohlgemuth} in 1963.\textsuperscript{34} In \textit{Wohlgemuth}, the defendant had worked in various positions for the plaintiff in its pressure space suit division.\textsuperscript{35} Wohlgemuth had signed a nondisclosure agreement with the plaintiff, but not an agreement not to compete.\textsuperscript{36} After leaving employment with the plaintiff, Wohlgemuth went to work as Technical Director for a competitor.\textsuperscript{37} Wohlgemuth was in possession of plaintiff's trade secrets and had made statements that he would use knowledge from his previous employment to benefit his new employer.\textsuperscript{38} The court held that there was no remedy at law for the plaintiff,\textsuperscript{39} but did find two equitable bases for issuing a permanent injunction.\textsuperscript{40} The court held that it was a general rule of equity that:

\begin{itemize}
  \item \textsuperscript{31} \textit{Pepsico}, 54 F.3d at 1270-71; \textit{Maxim Med., Inc. V. Michelson}, 51 F. Supp. 2d at 785-87.
  \item \textsuperscript{32} \textit{Pepsico}, 54 F.3d at 1270-71; see also Cal. Civ. Code 3426.2(a) (2001) ("Actual or threatened misappropriation may be enjoined").
  \item \textsuperscript{33} \textit{Pepsico}, 54 F.3d at 1268.
  \item \textsuperscript{35} 192 N.E.2d 99 (1963).
  \item \textsuperscript{36} \textit{Id.} at 105.
  \item \textsuperscript{37} \textit{Id.} at 102.
  \item \textsuperscript{38} \textit{Id.}
  \item \textsuperscript{39} \textit{Id.} at 103.
  \item \textsuperscript{40} \textit{Id.} at 105.
\end{itemize}
If an employee gains knowledge of his employer’s trade secrets as a result of the confidential relationship existing between employer and employee, and, in violation of the confidence, discloses such secrets to competitors after the termination of his employment, such abuse of confidence may be enjoined.\textsuperscript{41}

The court also held that the issuance of this injunction did not require the presence of an agreement not to compete.\textsuperscript{42}

The \textit{Wohlgemuth} court did not include a discussion of the competing interests in the case, but instead dismissed the defendant’s right to work in his chosen field in one conclusory sentence, saying:

We have no doubt that Wohlgemuth had the right to take employment in a competitive business, and to use his knowledge (other than trade secrets) and experience, for the benefit of his new employer, but a public policy demands commercial morality, and courts of equity are empowered to enforce it by enjoining an improper disclosure of trade secrets known to Wohlgemuth by virtue of his employment.\textsuperscript{43}

It is notable that the court in \textit{Wohlgemuth} did not cite any cases in its decision, and that the entire opinion contained a total of two citations (both were statutes defining “trade secret”).\textsuperscript{44}

\section*{C. The Pepsico Case}

A recent leading case that has sparked increased interest in and use of the IDD is \textit{Pepsico, Inc. v. Redmond}.\textsuperscript{45} In \textit{Pepsico}, the Seventh Circuit affirmed a district court’s issuance of a temporary injunction that prohibited Redmond from working in his new job with a competitor of his former employer. Redmond, a former Pepsico executive who had knowledge of Pepsico’s trade secrets and who had signed a confidentiality agreement with Pepsico, accepted a job with Quaker. At his new job, Redmond would be marketing a directly competing sports drink. The trade secrets that Redmond knew from his employment at Pepsico included its strategic plan, annual operating plan, “attack plans” (marketing plans for specific markets), and innovations in its selling and delivery systems.\textsuperscript{46} Pepsico argued that it would not be possible for Redmond to refrain from using its

\begin{itemize}
  \item \textsuperscript{41} \textit{Id.}
  \item \textsuperscript{42} \textit{Id.}
  \item \textsuperscript{43} \textit{Id.}
  \item \textsuperscript{44} \textit{Id.} at 104.
  \item \textsuperscript{45} 54 F.3d 1262 (7th Cir. 1995).
  \item \textsuperscript{46} \textit{Id.} at 1265-66.
\end{itemize}
trade secret information in his new job.\textsuperscript{47}

The issue before the Seventh Circuit was whether the district court correctly concluded that Pepsico had a reasonable likelihood of success on its claims for trade secret misappropriation and breach of the confidentiality agreement.\textsuperscript{48} The \textit{Pepsico} court noted that cases involving threatened misappropriation often revolve around a recurring tension in trade secret law:

\begin{quote}
Trade secret law serves to protect "standards of commercial morality" and "encourage invention and innovation" while maintaining "the public interest in having free and open competition in the manufacture and sale of unpatented goods." Yet that same law should not prevent workers from pursuing their livelihoods when they leave their current positions.\textsuperscript{49}
\end{quote}

The court also noted that this tension increases when the misappropriation has only been threatened.\textsuperscript{50} The court then discussed two cases in which injunctions based on the IDD had been denied, concluding that "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."\textsuperscript{51}

The court turned next to the problem of deciding what constituted "inevitable misappropriation."\textsuperscript{52} The court dismissed the idea that Quaker was going to use Pepsico's trade secrets to create its own distribution systems or adopt Pepsico's ideas. Instead, the court identified the inevitable disclosure as Quaker's ability "to anticipate [Pepsico's] distribution, packaging, pricing, and marketing moves."\textsuperscript{53} The court also noted that "Redmond might be faced with a decision that could be influenced by certain confidential information that he obtained while at Pepsico,"\textsuperscript{54} The court used the analogy of a coach who has had a player go to another team before the "big game" with the playbook still in hand.\textsuperscript{55} However, the court had stated earlier in its decision that "the mere fact that a person assumed a similar

\textsuperscript{47} Id. at 1266.
\textsuperscript{48} Id. at 1267.
\textsuperscript{49} Id. at 1268 (citations omitted).
\textsuperscript{50} Id.
\textsuperscript{51} Id. at 1268-69 (citing Teradyne, Inc. v. Clear Commun. Corp., 707 F. Supp. 353 (N.D. Ill. 1989); AMP Inc. v. Fleischhacker, 823 F.2d 1199 (7th Cir. 1987)).
\textsuperscript{52} Pepsico, 54 F.3d at 1269.
\textsuperscript{53} Id. at 1270.
\textsuperscript{54} Id.
\textsuperscript{55} Id.
position at a competitor does not, without more, make it "inevitable that he will use or disclose . . . trade secret information." The court never clearly distinguished this proposition from its ruling in the Pepsico case, leaving open the question of what constitutes inevitable misappropriation.

In the time between Redmond's acceptance of Quaker's offer of employment and his giving notice to Pepsico, he misrepresented several things to Pepsico. Although the district court found this lack of candor to be a factor in its decision, the court of appeals decision did not rely on that finding. The court merely held that the district court had not abused its discretion in considering Redmond's lack of candor. In fact, concerning Redmond's lack of candor, the Court of Appeals said, "[t]he facts of the case do not ineluctably dictate the district court's conclusion," indicating that a lack of trustworthiness could be considered, but was not necessary or conclusive.

The Pepsico Court also separately upheld (for the same reasons) the decision of the district court that Redmond's position at Quaker would cause him to violate his nondisclosure agreement with Pepsico. The agreement at Pepsico was therefore not essential to the finding of inevitable misappropriation.

The holdings of Pepsico are: 1) "inevitable" disclosure of trade secrets, even absent confidentiality agreements, may be enjoined; and 2) "inevitable" breaches of confidentiality agreements may also be enjoined.

D. California and the IDD

Earlier this year, the California Court of Appeals rejected the IDD in Schlage Lock Co. v. Whyte. In 1999, the court of appeal tried to adopt it in Electro Optical Industries v. White, but that decision was subsequently ordered depublished by the California Supreme Court, leaving the decision completely without legal effect. In its

56. Id. at 1269 (quoting AMP Inc., 823 F.2d at 1207).
57. Id. at 1264.
58. Id. at 1271.
59. Id.
60. Id.
61. Id.
63. See Electro Optical, 76 Cal. App. 4th at 653.
64. Cal. R. Ct. 977(a) ("An opinion of a [c]ourt of [a]ppeal or an appellate department of the superior court that is not certified for publication or ordered published shall not be cited or relied on by a court or a party in any other action or proceeding . . . ").
adoption of the IDD, the Court of Appeal for the Second District of California gave surprisingly little consideration, saying only that “[a]lthough no California court has yet adopted it, the inevitable disclosure rule is rooted in common sense and calls for a fact-specific inquiry. We adopt the rule here.”65 The court then stated the rule to be that:

[A]n injunction may issue where the new employment is “likely to result” in the disclosure of a former employer’s trade secrets, or where it would be “impossible” for an employee to perform his or her new job without using or disclosing those secrets.66

Before Electro Optical, the doctrine had been both adopted and rejected by different federal district courts in applying California law.67 The issue of whether the IDD applies in California appears to be settled, for the moment, by Schlage Lock Co.68 Whyte was the vice president of sales for Schlage, whose duties involved selling to large warehouse stores like the Home Depot.69 Whyte signed a confidentiality agreement and agreed to abide by their code of ethics, which forbade disclosure of confidential information, but did not sign a covenant not to compete. As part of his duties, Whyte participated in sales meetings with the Home Depot and other large retailers.70 In these meetings, Whyte presented confidential sales plans and other confidential information. In June of 2000, Whyte left Schlage to work for a competitor, where he would be selling to the same retailers. Schlage contended that Whyte disavowed his confidentiality agreement, stole trade secrets, and lied about returning company information. Whyte denied the allegations, saying that he affirmed the confidentiality agreement, and claimed that Schlage’s president vowed to destroy his career.

The court, in affirming the decision of the superior court below, noted that the facts of the case were “strikingly similar” to the

66. Id. (quoting Air Prods. and Chem. Inc. v. Johnson, 442 A.2d 1114, 1120 (1982)).
67. See e.g., Bayer, 72 F. Supp. 2d at 1119 (holding that the IDD does not apply under California law); Maxxim Medical, 51 F. Supp. 2d at 787 (adopting the IDD using California law and a Pepsico-like analysis); Danjaq, 50 U.S.P.Q.2d (BNA) 1638 (holding that Pepsico is not the law of California or the Ninth Circuit); Computer Sci. Corp., 1999 U.S. Dist. LEXIS 21803 (following Danjaq in holding that the IDD is not the law of California or the Ninth Circuit).
68. 2002 WL 31040309 at *1.
69. Id.
70. Id. at *2.
PepsiCo case. However, the court rejected Schlage’s argument that Whyte should be enjoined from taking his new job because he would inevitably disclose Schlage’s trade secrets. The court said that applying the IDD would essentially turn Whyte’s confidentiality agreement into an after-the-fact non-compete agreement. The court stated that when a confidentiality agreement exists, the IDD would create an “imperceptible shift in bargaining power” upon the start of employment, resulting in an after-the-fact change into a covenant not to compete. Additionally, the court said that the IDD ran counter to California’s strong public policy of employee mobility. The court concluded that the IDD “cannot be used as a substitute for proving actual or threatened misappropriation of trade secrets.”

Although it settled the issue of the IDD’s adoption in California, Schlage Lock Co. still leaves equally important questions unanswered. Specifically, although the court noted that threatened misappropriation could be enjoined, it did not discuss or define “threatened” because it was unnecessary; the standard of review required that the facts be construed in the light most favorable to the prevailing party, in this case the party seeking denial of the injunction. Indeed, the court expressly stated that “our decision is not a final adjudication on the issue of actual or threatened misappropriation.” The court noted that there was evidence to support both sides. Therefore, if the court below had issued an injunction due to threatened misappropriation, the court of appeal might have upheld that decision, even with identical facts. In sum, while Schlage Lock Co. rejects any use of the IDD to obtain an injunction outside of the “threatened” language of the UTSA, it does not give any guidance as to where the UTSA ends and the IDD begins. Therefore, employers and their departing employees are still left guessing what the standards are for the possibility of enjoining the employee’s future employment.

71. Id. at *11.
72. Id. at *1.
73. Id. at *12.
74. Id. at *13 (quoting Earthweb Inc. v. Schlack, 71 F. Supp. 2d 299, 311 (S.D.N.Y. 1999), remanded on other grounds, 205 F.3d 1322 (2d Cir. 2000), aff’d after remand, 2000 U.S. App. LEXIS 1446 (2d. Cir. May 18, 2000)).
75. Id.
76. Id. at *14.
77. Id. at *9-10.
78. Id. at *10.
79. Id.
80. See id.
E. Employee Mobility and California Business and Professions Code Section 16600

California Business and Professions Code 16600 ("B&P 16600") stands in tension with an expansive version of the IDD. It states that "every contract by which anyone is restrained from engaging in a lawful profession, or business of any kind is to that extent void." Courts in California have consistently construed this to be the codification of California's "strong public policy" for employee mobility and against covenants not to compete. Additionally, California courts have used B&P 16600 as the basis for explicitly rejecting the "rule of reasonableness" that many other states apply to covenants not to compete. Because B&P 16600 only restricts non-compete covenants, it does not prevent the adoption of the IDD, which has been used only in the context of trade secret misappropriation. However, B&P 16600 does remain a well-recognized statement of California's commitment to employee mobility and the right of workers to choose their business or profession. The California Supreme Court has stated:

Equity will to the fullest extent protect the property rights of employers in their trade secrets and otherwise, but public policy and natural justice require that equity should also be solicitous for the right inherent in all people, not fettered by negative covenants upon their part to the contrary, to follow any of the common occupations of life. Every individual possesses as a form of property, the right to pursue any calling, business or profession he may choose. A former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his former employer, provided such competition is fairly and legally conducted.

This is considered by some to be a significant reason for the existence and success of the Silicon Valley as a world leader in high technology industries.

At least one proponent of the IDD's adoption in California

82. Id.
86. Id.
attacks the origins of B&P 16600, arguing that it has been misapplied and interpreted incorrectly.\textsuperscript{88} Mr. Norris argues that B&P 16600 was essentially a codification of the common law as a “convenient statement” of it, and as such should not be interpreted rigidly, but should change with the times.\textsuperscript{99} However, the fact that B&P 16600 has changed with the times is evidenced by one of its relatively few exceptions, which allows restrictive covenants when they are needed to protect the trade secrets of the employer.\textsuperscript{90} It could be argued that such a big exception, especially in the context of trade secrets, should give support to the adoption of the IDD. However, even with this exception, the codification of B&P 16600 and the related case law leave no doubt that California places a high value on and has a strong tradition of protecting employee mobility.\textsuperscript{91}

Additionally, as a practical matter, B&P 16600 is a success. Not only does it recognize the right of employee mobility, it has been credited as one of the reasons for Silicon Valley being a world technology leader.\textsuperscript{92}

\textbf{F. Other Jurisdictions and the IDD}

Several other jurisdictions have considered and adopted the IDD.\textsuperscript{93} Others have rejected it.\textsuperscript{94} The elements considered and standards used by the courts can vary greatly, and some are even in direct opposition to each other.\textsuperscript{95} For example, in \textit{Conagra Inc. v. Tyson Foods}, the Arkansas Supreme Court ruled that a former employer was prohibited from suing under the IDD if there was not a

\begin{itemize}
    \item \textsuperscript{88} Trenton H. Norris, \textit{Why California Should Adopt 'Inevitable Disclosure'}, Intellectual Property Magazine (October, 1998).
    \item \textsuperscript{89} Id.
    \item \textsuperscript{91} \textit{See Continental Car-Na-Var Corp.}, 24 Cal. 2d at 110.
    \item \textsuperscript{92} Gilson, supra n. 87 at 619-20; See Jay L. Koh, \textit{From Hoops to Hard Drives: An Accession Law Approach to the Inevitable Misappropriation of Trade Secrets}, 48 Am. U. L. Rev. 271, 284 n.80 (1998) (citing Annalee Saxenian, \textit{Regional Advantage, Culture and Competition in Silicon Valley and Route 128} (1994)).
    \item \textsuperscript{94} \textit{Bayer Corp.}, 72 F. Supp. 2d 1111; \textit{Campbell Soup Co. v. Giles}, 47 F.3d 467 (1st Cir. 1995); \textit{IBM v. Bonyhard}, 962 F.2d 12 (8th Cir. 1992); \textit{FMC Corp. v. Cyprus Foote Mineral Co.}, 899 F. Supp. 1477 (W.D.N.C. 1995).
    \item \textsuperscript{95} \textit{Compare Conagra Inc. v. Tyson Foods Inc.}, 30 S.W.3d at 725 (2000), with \textit{Earthweb}, 71 F. Supp. 2d at 310.
\end{itemize}
confidentiality agreement. However, in *Earthweb Inc. v. Schlack*, the Second Circuit ruled that an employer waived the use of the IDD because it required employees to sign a confidentiality agreement.  

One scholar has identified four different approaches that courts have taken in applying the inevitable disclosure doctrine. These approaches are: 1) a general fact-intensive analysis, 2) looking at bad faith on the part of the departing employee or the new employer, 3) limiting the application of the IDD to highly technical employment, and 4) an objective look at the competition, coupled with an analysis of the similarity of the new position.

Another scholar has analyzed the different ways that the courts apply the IDD by looking at a number of factors that the courts have considered, rather than separating the decisions into doctrinal categories. The eight factors that D. Peter Harvey identifies as having been used by different courts in applying the IDD are:

1. Is the new employer a competitor? (2) What is the scope of the defendant's new job? (3) Has the employee been less than candid about his new position? (4) Has plaintiff clearly identified the trade secrets which are at risk? (5) Has actual trade secret misappropriation already occurred? (6) Did the employee sign a non-disclosure and/or non-competition agreement? (7) Does the new employer have a policy against use of others' trade secrets? (8) Is it possible to "sanitize" the employee's new position?

These four doctrinal categories and eight factors are gleaned from cases applying the IDD, and illustrate the complexity of the considerations involved in the IDD. This, along with a lack of standards for applying the IDD, has led to inconsistent application and results in jurisdictions adopting the doctrine.

**II**

**The IDD and Its Increasing Use**

Critics of the IDD claim that it is nothing more than a non-competition covenant masquerading as judicial doctrine.

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96. *Conagra Inc.*, 30 S.W.3d at 725.
98. For a complete discussion of these categories, as well as their respective benefits and disadvantages, see Koh, *supra* n. 92 at 286-98.
99. *Id.*
101. *Bayer*, 72 F. Supp. 2d at 1120 (holding that, absent a nontrivial showing of actual
Detractors of the doctrine have also likened the IDD to modern day indentured servitude. The following problems associated with the doctrine demonstrate why some courts have cautioned against creating "a conclusive presumption that a former employee, having had access to trade secrets, will necessarily engage in wrongdoing (intentional or accidental) by using those secrets in his or her next similar employment."  

A. The IDD Allows Employers to Jump the Gun in Protecting Trade Secrets

"A preliminary injunction is an extraordinary and drastic remedy, one that should not be granted unless the movant, by a clear showing, carries the burden of persuasion." The states that have adopted the UTSA have already lowered the preliminary injunction requirements regarding trade secret claims by removing misappropriation as an element of a trade secret claim when it is "threatened." In these states, misappropriation cannot be part of the claim because, being only threatened, it has not yet happened.

The standard is dangerously lowered even further when, as in Electro Optical, a court interprets the IDD to mean that an injunction is appropriate when the new employment is "likely to result" in the disclosure of a former employer's trade secrets. Whereas "threatened" suggests some imminence and unavoidability, "likely" would seem to suggest a standard closer to preponderance. For example, the court would not need to look for an actual instance of an employee threatening, implicitly or explicitly, to use a previous employer's trade secrets. Additionally, the court in Electro Optical adopted the IDD without discussion or further guidance.

This relaxation of standards will allow employers to act prematurely in obtaining preliminary injunctions against former 

or threatened use or disclosure, the IDD creates a "de facto covenant not to compete"); Schlage Lock Co., 2002 WL 31040309 at *12 ("we agree that the doctrine of inevitable disclosure 'creates a de facto covenant not to compete.'") (quoting Bayer, 72 F. Supp. 2d at 1120).


103. KLA-Tencor Corp. v. Rigg, Case No. CV 787420, slip op. at 8 (Sup. Ct. Cal. 2000).

104. Maxxim Medical, 51 F. Supp. 2d at 778.


107. Id.
employers. It reaches far below the "inevitable" standard used by the court in *Pepsico*, and abandons the stringent requirements that California courts place on allowing noncompete agreements. Furthermore, it also abandons the standards that courts have historically used in deciding whether to issue preliminary injunctions. Such a standard, allowing an employer to prevent a former employee from taking a new position based only on a likelihood or preponderance of whether misappropriation will occur in the future, is inappropriate for a remedy like a preliminary injunction.

**B. The IDD Can Be Used as a Sword Instead of a Shield**

The IDD is intended to help protect trade secrets, but it also has the potential to unfairly affect employees. The threat of litigation from IDD can be used to stop employees from leaving their present jobs. Companies like the U.S. arm of French telecom company Alcatel have been criticized for using the IDD to aggressively go after former employees, competitors, and even the venture capital backers of their competitors. Critics say that the IDD has been used to stifle startups, illegally restrain competition, and even impact the availability of funds, affecting regional economic development. One such critic, technology giant Cisco Systems, has never used the IDD against a competitor because it believes that the use of IDD is leading "down a dangerous path." Cisco associate general counsel Mark Chandler believes that the law "should be based on proof rather than supposition, and that the IDD could chill high tech entrepreneurship."

The potential for the IDD to be abused in this way is great, and can have an adverse impact on innovation. In a recent case, a startup paid four million dollars in legal bills to defend an IDD claim in which Novell had obtained a preliminary injunction prohibiting work

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108. *Pepsico*, 54 F.3d at 1269.
110. *Id.* (discussing strict requirements for issuance of preliminary injunction).
113. *Id.*
115. *Id.*
on a software product. The program code in question cost only $2.2 million to develop. The overall cost to develop this product was increased almost 200 percent by the litigation, which will have the effect of driving investment capital elsewhere.

The uncertainty and irregular application of the IDD is another way that the doctrine favors employers. The disparity in resources makes it easier and more worthwhile for employers to file suit against former employees to stop them from competing in similar fields.

C. The IDD Imposes an Unanticipated Non-compete Agreement

Another criticism of the IDD is that it creates an after-the-fact non-compete agreement on departing employees. The doctrine allows a former employer to restrict an employee's future employment, essentially imposing a non-compete agreement onto the employee. This is unfair to the employee, regardless of whether he has signed a non-disclosure agreement, because it was not a term of his employment and he was not compensated in exchange for it. If an agreement not to compete was not adopted at the outset of employment, the court's imposition of one on a departing employee is a potential windfall for the employer, who does not have to compensate the employee in return. The employer can essentially get a free ride on the back of the IDD at the expense of the former employee, when it is the employee who is often least able to afford it. Some courts have noticed the inequity in this situation, and have stated that covenants not to compete should be bargained for out in the open, rather than imposed after the fact.

D. The IDD Makes Non-Disclosure Agreements a Catch-22 in Unsettled Districts

The IDD may be and often is invoked when the departing employee has signed a written non-compete or non-disclosure agreement. However, in another jurisdiction, the court ruled the

116. Essex, supra n. 28.
117. Id.
118. Koh, supra n. 92, at 305 n. 206.
119. Id.
120. Bayer, 72 F. Supp. 2d at 1111 (holding that, absent a nontrivial showing of actual or threatened use or disclosure, the IDD creates a "de facto covenant not to compete"); Schlage Lock Co., 2002 WL 31040309 at *12 ("we agree that the doctrine of inevitable disclosure 'creates a de facto covenant not to compete.'") (quoting Bayer, 72 F. Supp. 2d at 1120). See also Koh, supra n. 92, at 285 n.79.
121. Earthweb, 71 F. Supp. 2d at 310.
122. See e.g., Pepsico, 54 F.3d at 1264.
opposite - that an employer may waive its rights under the IDD if it has required an employee to sign a restrictive covenant. In *Earthweb, Inc. v. Schlack*, a New York court refused to issue an injunction where the employee had signed a nondisclosure agreement with the former employer. The court held that the IDD was unavailable to the plaintiff because it had entered into a specific contract, and was therefore limited to a strict interpretation of that contract.

The *Earthweb* case highlights one of the dilemmas employers and employees face when trying to gauge their specific rights under such an unsettled doctrine. If an employer requires an employee to sign a nondisclosure or noncompete clause at the start of employment, it may later be precluded from asserting a claim premised on the IDD. However, if an employer does not require such a writing of its employees, it may leave itself otherwise unprotected if the IDD does not apply. Additionally, the absence of a written confidentiality agreement can be used to show the lack of reasonable measures taken to protect a trade secret, and weigh in favor of a court finding that no trade secrets even exist. Therefore, in forums where the IDD or its application is unsettled, employers and employees must make decisions at the beginning of employment that may later affect their rights in unforeseen and unintended ways.

**E. The Doctrine of Negative Trade Secrets Exacerbates the Problems of the IDD**

The doctrine of negative trade secrets essentially allows the knowledge of what not to do to be treated as a trade secret as well. The doctrine of negative trade secrets has gained acceptance since the UTSA and the Restatement (Third) of Unfair Competition dropped the continuous use requirement for trade secrets. Although there are relatively few reported cases which have adopted protection for negative trade secrets, they seem to be specifically allowed by the comments to section 69 of the Restatement, which notes that the use requirement was dropped because it “places in doubt protection for

124. Id.
125. Id. at 311-12.
128. Id. at 400.
so-called 'negative' information that teaches conduct to be avoided, such as knowledge that a particular process or technique is unsuitable for commercial use.\textsuperscript{129} As this doctrine gains popularity and acceptance, its intersection with the IDD will broaden the IDD considerably,\textsuperscript{130} making it more important for the scope and requirements of the IDD to be properly defined.

F. The IDD Hinders Employee Mobility and Innovation

Courts should also more thoroughly explore the employee’s right to mobility, as California does.\textsuperscript{131} The right of a person to pursue the work he sees fit is correctly recognized by the California courts to be an important property right closely connected to fundamental issues of personhood and freedom,\textsuperscript{132} but in many cases this right is not discussed or balanced against the trade secret rights of the plaintiff.\textsuperscript{133} As the court in 	extit{Schlage Lock Co.} stated, "[t]he decisions rejecting the inevitable disclosure doctrine correctly balance competing public policies of employee mobility and protection of trade secrets."\textsuperscript{134} The IDD necessarily restricts employee mobility. Restricting employee mobility will hinder innovation.\textsuperscript{135} Employee mobility has been credited as one of the reasons for the success of Silicon Valley, and the lack of such mobility has been cited by empirical studies as a reason for the decline of other high-tech areas.\textsuperscript{136} Application of the IDD could provide incentive for employees to consciously avoid exposure to trade secrets, seeing contact with such information as a future liability to their mobility and career outside of their present employment.\textsuperscript{137} Courts should also recognize that employee mobility also benefits the former employer. The other side of an employer’s liability in departing employees is that same employer’s gain from its hiring of other company’s employees.\textsuperscript{138} Additionally, courts should recognize the interest of the new employer in hiring qualified employees. Although not often mentioned, the new employer has an

\textsuperscript{129} See Restatement (Third) of Unfair Competition § 39, cmt. b (1995).
\textsuperscript{130} Hamler, supra n. 127 at 401.
\textsuperscript{131} Supra pt. I(d) (discussing California’s policies regarding employee mobility).
\textsuperscript{132} Id.
\textsuperscript{133} See e.g., Pepsico, 54 F.3d at 1269; B.F. Goodrich, 192 N.E.2d at 105; Electro Optical, 76 Cal. App. at 660.
\textsuperscript{134} 2002 WL 31040309 at *12.
\textsuperscript{135} Edelstein, 26 Golden Gate U. L. Rev. at 733.
\textsuperscript{136} Koh, supra n. 92, at 284 n. 80 (citing Annalee Saxenian, \textit{Regional Advantage, Culture and Competition in Silicon Valley and Route 128} (1994)).
\textsuperscript{138} See Gilson, supra n. 87 at 619-620.
interest in the outcome of litigation because businesses need to hire experienced and skilled employees to replace those that leave.

### III

Proposals for Application of the IDD

A. The IDD Should Be Specifically Defined and Narrowly Applied

The court in *Earthweb Inc. v. Schlack* correctly noted that “in its purest form, the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory,” and said that, “[a]bsent evidence of actual misappropriation by an employee, the doctrine should be applied in only the rarest of cases.” Even the *Pepsico* case counsels restraint of the IDD, emphasizing that “the mere fact that a person assumed a similar position at a competitor does not, without more, make it ‘inevitable that he will use or disclose . . . trade secret information’.” Cases like *Electro Optical* go well beyond this by converting “inevitable” into “likely”.

Because California places great priority on the mobility of employees, and because this public policy benefits the state, California has rejected the IDD, even though the issue of threatened misappropriation remains.

The use of the IDD in all jurisdictions should be similarly limited to situations where the disclosure is proven to be literally imminent or is actually inevitable, i.e. incapable of being avoided. This protection against a lowering of the standards used in applying the IDD is necessary because of the nature of the doctrine. Specifically, the IDD allows an injunction to issue for trade secret misappropriation when none has occurred or is even alleged. Such a drastic remedy should not be granted in speculative circumstances, as the *Electro Optical* court did by using a “likely” standard.

Use of the IDD should be limited to two situations: where the disclosure is proved to be literally threatened, or where disclosure is actually inevitable, i.e., incapable of being avoided. An example of

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140. *Pepsico*, 54 F.3d at 1268 (quoting *AMP Inc. v. Fleischhacker*, 823 F.2d 1199, 1207 (7th Cir. 1987)).
142. Gilson, *supra* n. 87 at 219-20.
143. See *supra* section II.
such a standard is to require a finding that future disclosure is incapable of being avoided, or in other words, that it truly is inevitable. Furthermore, any adoption of the IDD should come with detailed instructions and standards to prevent ambiguity. Creating uncertainties about the merit and chances for success of certain claims increases the cost and likelihood of litigation, as well as the potential for abuse and the likelihood of inconsistent outcomes. Any adoption of such an unsettled and potentially far-reaching doctrine should come with a thorough discussion of the requirements and limits of the doctrine as adopted by that jurisdiction, and should also include a discussion of the rationale of the court in adopting the form of the doctrine that it chooses.

B. Alternative Remedies

California could also temper the harshness of the IDD with alternative remedies. The IDD has been criticized for its "inadequate and inconsistent all-or-nothing remedies." Currently, the usual response of the courts is an issuance of or refusal to issue an injunction prohibiting or limiting new employment. However, there are less severe alternatives than the court could use in crafting remedies if and when inevitable disclosure is found.

C. Compensating Enjoined Employees

In return for granting an injunction using the IDD, courts should order former employers to compensate employees who are enjoined from taking new work, provided there was no noncompete agreement. If a court, at a former employer’s request, takes away the right to find a new job in one’s chosen field, a property right recognized by the California Supreme Court, then that employer should have to compensate the former employee as a matter of fairness and equity. The employer’s windfall in the granting of a noncompete agreement is essentially unjust enrichment, since the employer has received something of value for which it did not bargain or provide compensation. Under contract law, unjust enrichment is compensable even in the absence of a contract. An additional benefit and safeguard that comes from such compensation is that former

146. Koh, supra n. 92, at 299–304.
147. Pepsico, 54 F.3d at 1269.
employers might be less likely to abuse the IDD by pursuing bogus or harassing claims if they would have to pay the fair value of what they are asking for.

D. Lenient Restoration of Trade Secret Status

It is well settled that a trade secret "once lost is lost forever."149 Since the possibility of disclosure and permanent loss of a trade secret is an issue in applying the IDD, courts should be stricter in guidance but permissive in action. They should be lenient in restoring a trade secret if it is used by the new employer, but not released to the public.

Because trade secrets, if used by former employees, would presumably be closely held by the new employer as well, putting the genie back in the bottle with respect to the "secret" would be far easier than in cases where the trade secret information has been publicly disseminated. For example, if a court found that a departing employee misappropriated a former employer's trade secret, the court could rule that the discovery of the trade secret by others did not destroy the secret, as long as the trade secret was not publicly disseminated. The court could then enjoin the new employer and anyone else who had inappropriately discovered the trade secret from further use of the secret. If, however, the new employer had disseminated the secret so widely that restoration of trade secret status was impossible, then damages would be the proper remedy.

E. Ongoing Discovery Obligations

In some situations the courts could fashion ongoing discovery obligations instead of enjoining a departing employee from accepting a new job. That is what the court did in Bayer v. Roche Molecular Systems. It checked up on the new employee and employer, and gave the former employer some peace of mind. In Bayer, the court refused to adopt the IDD and enjoin the employee from his new employment; instead, it ordered the defendant to submit to ongoing discovery obligations such as depositions and document production in order to ensure protection of the plaintiff's trade secrets.150 This would be a particularly appropriate remedy when the court finds that disclosure may be likely, but not necessarily inevitable.

F. Punitive Damages

The courts could also create harsher penalties for trade secret

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149. Taiwan Giant, 730 F.2d at 63.
misappropriation that would reduce the incentives for departing employees and their new employers to use a former employer's trade secrets. The courts already use treble damages and punitive damages in other areas of law to lessen the incentives for potential wrongdoers. Treble damages could be used for this purpose in the trade secret context as well.

**IV**

**Conclusion**

The mere adoption or rejection of the IDD is not a tough issue. The vast majority of states, including California, have already adopted the UTSA, which specifically allows for courts to enjoin "threatened misappropriation." ¹⁵¹ The IDD is simply a way for courts to determine what rises to the level of threatened misappropriation. Taken literally, the IDD would only apply to cases that are truly "inevitable," that is to say where disclosure is shown to be absolutely incapable of being avoided. However, some courts have applied the IDD much more broadly, using it to convert non-disclosure agreements into non-compete agreements, and by substituting inevitability with likelihood.

Given the success of California's strong public policy for employee mobility, a "threatened disclosure" under the UTSA should be interpreted to mean a disclosure that is actually threatened, as opposed to merely a likely or possible one. Only those rare situations where disclosure of a former employer's trade secrets is in fact "inevitable" should be included in the actual threatened disclosure category. In such circumstances, the courts should enjoin the new employment only to the extent that it is necessary. The courts should refuse to expand the IDD or the threatened misappropriation beyond this strict standard.

The proper standards for inevitability and the definition of threatened misappropriation remain unclear in many jurisdictions, including California. However, through a narrow application of the IDD and the use of creative and well-tailored remedies, the courts will be able to determine these standards on a case by case basis while properly balancing and protecting all of the legitimate interests involved.

¹⁵¹. *Supra* n. 5 and accompanying text.