

# Managing the risk of trade secret loss due to job mobility in an innovation economy with the theory of inevitable disclosure

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**MANAGING THE RISK OF TRADE SECRET LOSS DUE TO JOB  
MOBILITY IN AN INNOVATION ECONOMY WITH THE THEORY  
OF INEVITABLE DISCLOSURE**

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*Employment relationships in the Internet and technology sectors are highly dynamic in which change and churn as the norms. Employees are now knowledge workers: highly educated, mobile, often with multiple cultural links, possibly exceeding other company assets in their comparable institutional value. These employees create the intangible intellectual property that now constitutes more than three-fourths of the assets in knowledge businesses whose main value derives from innovation, know-how, brand and reputation.*

*This article focuses on the ever-more valuable trade secrets and how job mobility impacts trade secret protection. Employers have few options when confronting the loss of key employees who are closely associated with those trade secrets. This article examines the controversial theory of inevitable disclosure - that use or disclosure of the former employer’s trade secrets is inevitable and therefore actionable, despite the fact that there is no evidence of actual misappropriation. Some states have adopted this theory, while others steadfastly refuse to, and this has created notable differences in employment patterns, job mobility, innovation and more. Courts consider this theory on motions for equitable relief but the outcomes are usually anything but equitable. To the extent courts adopt this theory, departing employees become unemployed*

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*and unemployable, the new employers are negatively impacted, and further the effects to the general public are felt in the rate of innovation, and in regional development such as where it is that jobs are created. Remedies and procedural issues are of critical importance too, because these cases predictably involve a series of pre-trial motions including requests for temporary restraining orders and preliminary injunctions. Further challenges immediately arise related to jurisdiction, forum, venue and conflict of laws since trade secret law is the only form of intellectual property still largely governed by states and the differences are pronounced, important, often outcome-determinative.*

*The authors present a series of representative inevitable disclosure cases as a means to highlight the differences and tangle of relative equities. To the extent courts expand trade secret protections to broadly adopt the inevitable disclosure doctrine at the pre-trial stage before a full trial on the merits, courts hazard overprotecting employers to the detriment of departing employees, innovation and the general public. The authors propose alternative approaches to protect against trade secret loss including use of forfeiture for competition agreements along with improved employee incentive and retention strategies. We further suggest that this is part of the creative destruction process and employers should consider the possibility that these departing employees may actually be leads to new opportunities and sectors that are worthy of consideration.*

## I. Introduction

Employment relationships in the internet and tech sectors are highly dynamic in which change and churn are the norms. Employees are now knowledge workers: highly educated, mobile, often with multiple cultural links, possibly exceeding other company assets in their comparable institutional value. Intangible IP constitutes more than three-fourths of the assets in knowledge businesses whose main value derives from innovation, know-how, brand and reputation.<sup>1</sup> Employers confront rapidly changed work environments as well: the creative destruction cycle is faster, complex supply chains leverage assets further, with workers worldwide simultaneously blurring personal and work resources, space and time. Employers are less eager to offer long-term employment training and other incentives, while at the same time employees comprise more of the value quotient than ever, but are less loyal and less tethered to their workplaces. Work projects are stored on personal devices since everything is networked and portable—and the boundaries between work and personal have vanished with notable losses in employer control, hierarchy and secrecy.

Assets are defined more by brilliant restless employees and their coding creations than by legacy physical company assets. These paradigm shifts, from physical to intellectual assets and mobile work environments are hallmarks of the information age and talent economy. In this era, it is all about the talented individual. With personal contributions commensurately higher, such outstanding employees are highly prized. Their skill sets are attractive to competitors, near-competitors and increasingly to companies that suddenly, because of market changes or an acquisition, find themselves in that market. The extraordinary impact of individual talent means that any employee departure produces outsize implications. Consider just a few high profile and explosive departures: a Microsoft executive leaves for Google, an IBM executive departs for Apple, HP's CEO defects for Oracle. Beyond the evident employee attrition, key employees

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1. ROBERT SHEARER, *BUSINESS POWER: CREATING NEW WEALTH FROM IP ASSETS* xxviii (2007) (stating the percentage of business assets that IP constitutes).

leaving for arch-competitors elicits added animus in these cases. In each instance, employers filed motions for preliminary injunctions on a theory that the employee's new job creates a risk that disclosure of the former employers' trade secrets is inevitable.

Approved by various courts as a substitute for evidence of actual disclosure and thus, misappropriation of trade secrets, the doctrine of inevitable disclosure raises a number of policy concerns for it significantly impacts a number of interests.<sup>2</sup> As well it triggers broader concerns of competition and innovation policy. For employers, managing the risk of trade secret loss due to job mobility is an urgent priority. It is crucial to recognize employers' legal rights in their proprietary assets and trade secrets. For employees in a free market economy offering a nominal social net, earning a living by maximizing their value and leveraging their skills are paramount. To the extent this doctrine is recognized, mobility, competition for labor and competition between businesses, as well as innovation are all impeded. Competition, both for employees and between companies, is impaired because the doctrine acts to an extent as an after-the-fact non-competition agreement without the employee's assent. Finally, innovation suffers to the degree courts recognize this doctrine since job mobility is directly correlated to increased innovation.<sup>3</sup> Trade secret law and the legal theory of inevitable disclosure are the focus of this work. Containing and managing risks associated with the uncertain and inconsistent recognition of the doctrine of inevitable disclosure are addressed in this article, along with strategies for navigating issues related to job mobility, loss of additional employees and further knowledge spillover.

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2. Randall E. Kahnke et al., *Doctrine of Inevitable Disclosure*, FAEGRE & BENSON LLP, at 11, Sept. 11, 2008, archived at <http://www.webcitation.org/67EufDwD7> (giving factors that courts have considered when applying the inevitable disclosure doctrine).

3. See Jiang He & M. Hosein Fallah, Ph.D., *Mobility of Innovators and Prosperity of Geographical Technology Clusters: A Longitudinal Examination of Innovator Networks in Telecommunications Industry*, INT'L CONF. ON COMPLEX SYS., June 24-30, 2006, at 3 (referencing a study suggesting "a higher rate of job mobility corresponds to greater innovation progress . . .").

To sense what is at stake for companies in intensely competitive sectors whose very existence is attributable to innovation,<sup>4</sup> consider one such recent case. Hewlett Packard's CEO departed for Oracle, and less than a day later HP filed its lawsuit against Mark Hurd,<sup>5</sup> asserting that "he cannot perform his duties for Oracle without necessarily using and disclosing HP's trade secrets and confidential information to others."<sup>6</sup> Oracle has been a marketing partner of HP and they now have a complicated relationship since Oracle expanded into HP's core areas and now the two are more akin to rivals due to changes in markets as well as mergers and acquisitions.<sup>7</sup> Hiring Hurd "upped the ante" between the companies, in which talented employees, trade secrecy and innovation are all that matter.<sup>8</sup>

In its complaint, HP indicated that trade secrets are an indispensable factor in its success and that it takes every precaution against trade secret loss.<sup>9</sup> Further, Hurd had access to "direct reports from each of HP's business units...confidential information regarding research and development, marketing, strategy, customer contact, target acquisitions, merger opportunities [and] allocation of resources...."<sup>10</sup> He also had

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4. See Tim St. Clair, *Who Said It Would Be Easy? Protecting Intellectual Property From Employee Pilfering Is Challenging*, 82 BNA'S PAT., TRADEMARK & COPYRIGHT J. 671, at 1, Sept. 16, 2011, archived at <http://www.webcitation.org/65wnAUa7o> (noting that "almost every business now recognizes that IP drives its worth and competitive advantage.").

5. See Civil Complaint for Breach of Contract and Threatened Misappropriation of Trade Secrets, *Hewlett-Packard Co. v. Hurd*, No. 110-CV-181699, 2010 WL 3470816 (Cal. Super., Sept. 7, 2010) [hereinafter *HP Complaint*] (memorializing the September 7, 2010 filing date).

6. *Id.* ¶ 46; see also Ashlee Vance, *H.P. Sues Its Ex-Chief in New Job*, N.Y. TIMES, Sept. 7, 2010, archived at <http://www.webcitation.org/65xqygzOI> (reporting allegation that Hurd's work with Oracle would inevitably result in the release of trade secrets).

7. See Vance, *supra* note 6 (highlighting the business relationship between Oracle and HP).

8. Vance, *supra* note 6.

9. See *HP Complaint*, *supra* note 5, ¶ 47 (stating that HP's trade secrets are not generally known within the industry and that they provide HP economic value).

10. *HP Complaint*, *supra* note 5, ¶¶ 35-36.

access to “customers, vendors,...[information on] pricing, margins, customer initiatives, allocation of resources, product development, multi-year business and talent planning”<sup>11</sup> and more. HP cited one sector (enterprise servers and storage) in which it directly competes with the new employer Oracle “where Hurd’s ‘relevant experience’ includes HP trade secret and confidential information.”<sup>12</sup> HP asked the court to issue an immediate injunction enjoining Hurd from starting any job “with a competitor in which he will utilize or disclose HP’s trade secrets and confidential information,” and further, HP requested compensatory and exemplary damages.<sup>13</sup>

Note that the allegations are remarkably short of specifics, typical in these cases.<sup>14</sup> Essentially the claim is that there exists such an unacceptably high risk the trade secrets will inevitably be disclosed, the court should not allow this defendant to take that job.<sup>15</sup> Successfully argued in a number of jurisdictions, many courts have granted preliminary injunctions to employers based on such untried allegations. What should courts do? Grant injunctions against employees who had the temerity to exercise their prerogative and switch jobs? Should they deny employers the ability to protect that which is rightfully theirs? Reward mobility or restraint? Competing rights and stark choices: rights to intellectual property and the freedom to earn a living. Fierce competition for talent; tensions between employers’ rights to protect intellectual property investments and employees’ rights to compete for the best job at the best salary, all play out against constant change and an uncertain future.

In the *HP v. Hurd* case, the parties settled in September 2010 mainly due to the ongoing business relationships between HP and Oracle. As part of the settlement Hurd agreed to relinquish some HP stock option rights before beginning work at

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11. *HP Complaint*, *supra* note 5, ¶ 51.

12. *HP Complaint*, *supra* note 5, ¶ 43.

13. *HP Complaint*, *supra* note 5, at B1.

14. *HP Complaint*, *supra* note 5, ¶¶ 3-4 (alleged generally that Hurd breached his contract and threatened trade secret misappropriation).

15. *HP Complaint*, *supra* note 5, ¶¶ 4-5 (stating HP’s desired form of relief).



Oracle.<sup>16</sup> Oracle agreed that it would continue to port its products to HP platforms (they have 140,000 joint customers) and engage in shared business opportunities.<sup>17</sup> But then, HP hired Leo Apothekar to replace Hurd as CEO. Apothekar was formerly CEO of SAP, one of Oracle's fiercest software rivals. It is a small world indeed...the HP-Oracle alliances quickly deteriorated. By June 2011, HP filed suit against Oracle for breach of the Hurd settlement agreement by refusing to develop new versions of its software for HP platforms.<sup>18</sup> There continues to be significant fallout from Hurd's departure, and a number of other claims have been raised in subsequent related litigation featuring a cascade of complaints, amended complaints and cross-complaints.<sup>19</sup> And by December 2011, Oracle announced it missed analysts' earnings per share estimates for the first time in ten years<sup>20</sup> fueling speculation about the continued viability of Oracle's business model, amid structural changes in computing and migration to cloud services that especially impact middleware market vendors like Oracle, fueled further by a trend towards open source software at the expense of proprietary software such as Oracle's.

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16. See Gabriel Madway, *HP and Hurd settle lawsuit over hiring at Oracle*, REUTERS.COM, Sept. 21, 2010, archived at <http://www.webcitation.org/65xtBfPXo> (announcing the modification of Hurd's separation agreement waiving his rights to 345,000 stock units).

17. See *id.* (describing the interactions between HP and Oracle).

18. See Civil Complaint for [Text Redacted in copy.] (4) Breach of Implied Contract; (5) Promissory Estoppel; (6) Defamation-Libel; (7) Intentional Interference With Prospective Economic Advantage; (8) Violation of CA BUS. And Prof Code § 17043; (9) Violation of CA BUS. And Prof. Code § 17044; and (10) Violation of CA BUS. And Prof. Code § 17200, et seq. Demand for Jury Trial, *Hewlett-Packard Co. v. Oracle, Inc.*, No. 111-CV-203163 (Super. Ct. Cal. Filed June 15, 2011) (explaining the basis of Oracle's claim).

19. See Madway, *supra* note 16 (indicating that Hurd's departure resulted in an ugly dispute between HP and Oracle); Arik Hesseldahl, *Oracle Accuses HP of "Campaign of Secrecy and Deception" Over Itanium*, ALL THINGS DIGITAL, Dec. 2, 2011, archived at <http://www.webcitation.org/65xvsSBWW> (showing the cross-complaint for the case).

20. See Aaron Ricadela, *Oracle Sales, Profit Miss Estimates*, BLOOMBERG.COM, Dec. 21, 2011, archived at <http://www.webcitation.org/65y0gZvAJ> (analyzing market conditions that led to Oracle's earnings).

Churn indeed.<sup>21</sup>

This article details trade secret law as well as causes of action with a focus on the theory of inevitable disclosure adopted by some, but not all states. Remedies and procedural issues are of critical importance because these cases predictably involve a series of preliminary motions, including requests for temporary restraining orders and preliminary injunctions. Further challenges immediately arise related to jurisdiction, forum, venue, and conflict of laws because trade secret law is an area governed by states and the differences are pronounced, important, and in some instances, even outcome-determinative. The authors present in Part III representative inevitable disclosure cases as a means to highlight the differences and tangle of relative equities underlying such cases. This area of jurisprudence is highly relevant to our innovation economy in the information age. The theory affects competitiveness, innovation, employment, and even where jobs are created. To the extent courts overly extend trade secret law to encompass a risk of inevitable disclosure as actionable, without evidence of actual disclosure and thus misappropriation before a full trial on the merits, courts hazard overprotecting employers to the detriment of employees, innovation, and the general public. The authors propose strategies to avert such outcomes through adoption of narrowly drawn forfeiture for competition agreements, along with improved employee incentive and retention programs. We further suggest that the former employers should consider the possibility that these departing employees may actually be leads to worthwhile opportunities and sectors they missed and should consider as well.

## II. Trade Secret Law

Trade secrets are used in business as a means to confer a competitive advantage over rivals who do not know of or use that

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21. Oracle noted in a recent SEC 10-K filing “[t]he nature of the IT industry creates a competitive landscape that is constantly evolving as firms emerge, expand or are acquired, as technology evolves.” *HP Complaint*, *supra* note 5, ¶ 44.

trade secret. Trade secrets may consist of a method, device or technique, an algorithm, manufacturing know-how, customer lists, information related to costs, prices, supplies, margins, even strategic plans.<sup>22</sup> In contrast to patents that expire, trade secrets have an infinite lifespan limited only to the extent secrecy is lost.<sup>23</sup> Trade secrets famously include the Coca Cola formula,<sup>24</sup> aspects of Google's search algorithm,<sup>25</sup> and parts of Apple's OS X software.<sup>26</sup> Under the Uniform Trade Secrets Act (UTSA), trade secrets are information (formula, pattern, compilation, program device, method, technique, or process, etc.) that derives independent economic value from not being generally known or readily ascertainable by proper means, by those who can obtain economic value from its disclosure or use, and is the subject of reasonable efforts to maintain its secrecy.<sup>27</sup> In determining whether the information qualifies for trade secret status, six factors are relevant: (1) the extent to which it is known outside the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken to ensure secrecy; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended for its protection; and (6) the ease or difficulty in developing that same information.<sup>28</sup>

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22. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39, cmt. d (1995) (defining and discussing the doctrinal development of trade secrets).

23. See GERALD R. FERRERA ET AL., *CYBERLAW TEXT & CASES* 214 (3d ed. 2012) (showing the similarities and differences between trade secrets, copyrights and patents).

24. See *Coca-Cola Bottling Co. of Shreveport, Inc. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985) (stating "the complete formula for Coca-Cola is one of the best kept trade secrets in the world").

25. See *Ascentive, LLC v. Opinion Corp.*, No. 10-Civ-4433, 2011 WL 6181452, at \*2 n.4 (E.D.N.Y. Dec. 13, 2011) (recognizing that the exact mechanics of Google's algorithm are routinely considered trade secrets).

26. See Irving S. Rappaport, *Intellectual Property Practice in Taiwan, Hong Kong, and Singapore and the Apple II Anti-Clone Strategy*, 366 PLI/PAT 63, 69 (1993) (describing Apple's Macintosh operating system as a guarded trade secret).

27. See UNIFORM TRADE SECRETS ACT, § 1(4) (2005) [hereinafter UTSA] (defining "trade secrets").

28. See *Integrated Cash Mgmt. Serv., Inc. v. Digital Transactions, Inc.*, 920

Beyond identifying trade secrets within a business, it is necessary to secure these assets through creating data security protocols to protect against current and potential internal as well as external security threats.<sup>29</sup> Furthermore, most employers require employees to agree to contractual limitations as a condition of employment when starting a new job.<sup>30</sup> Such agreements commonly include covenants to: not disclose confidential or proprietary information (NDAs);<sup>31</sup> not compete

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F.2d 171, 173 (2d Cir. 1990) (listing the six factors that determine whether information is a trade secret); *see also* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (defining trade secret). This was an influential formulation of U.S. trade secret law, but these sections were omitted from the Restatement (Second) of Torts as the commentators considered that by 1979 this area had become too specialized for the torts publication. *See* Richard F. Dole, Jr., *Permanent Injunctive Relief for Trade Secret Misappropriation Without an Express Limit Upon its Duration: The Uniform Trade Secrets Act Reconsidered*, 17 B.U. J. SCI. & TECH. L. 173, 175 (2011).

29. *See* Ruckelshaus v. Monsanto Co. 467 U.S. 986, 1002 (1984) (describing the property interest in a trade secret as the extent to which the owner protects it from disclosure). In contrast to patented or copyrighted information, trade secrets are valuable only if undisclosed. *See id.* Once revealed, they lose their value. *See id.*

30. *See* Talhiya Sheikh, *Trade Secrets and Employee Loyalty*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, Apr. 5, 2012, *archived at* <http://www.webcitation.org/66hT6jmx9> (providing the importance of legal contracts between employers and employees when it comes to trade secret protection).

31. *See* FERRERA, *supra* note 23, at 270-71, 317 (outlining the structure of a Nondisclosure Agreement). These contracts become an additional theory upon which to base a recovery for actionable trade secret claims. *See id.* Non-disclosure agreements typically detail the scope of: covered information, as well as time that the information remains protected from disclosure. *See* JAMES POOLEY, *TRADE SECRETS* § 8.02[1] (2010) (describing basic components of a non-disclosure agreement). Microsoft's NDA covenant with Mr. Kai-Fu Lee (the employee who left for Google) provided:

During my employment and at all times thereafter, I will not disclose to anyone outside MICROSOFT nor use for any purpose other than my work for MICROSOFT: a) any MICROSOFT confidential or proprietary information or trade secrets....I will not disclose confidential or proprietary information or trade secrets to other MICROSOFT employees except on a 'need-to-know' basis and I will not disclose third party confidential or proprietary information....[T]rade secrets means all data and information in whatever form,

with the business or its actual or anticipated goods or service (NCAs);<sup>32</sup> and not solicit co-workers or others connected to the business for any ventures beyond the present employer (NSAs).<sup>33</sup> These agreements create additional layers of protection since they create contractual obligations between parties that form an additional theory of recovery beyond the tort theory of trade

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tangible or intangible, that is not generally known to the public and that the release to the business, technology, practices, products, marketing, sales, services, finances, or legal affairs of MICROSOFT...about actual or prospective customers, suppliers and business partners; business, sales, marketing, technical, financial and legal plans, proposals and projection; concepts, techniques, processes, methods, systems, designs, programs, code, formula, research, experimental work and work in progress. If I have any questions as to what comprises such confidential or proprietary information or trade secrets...I will consult my manager.

Microsoft Corporate Employee Agreement, (Mar. 1, 1998) *archived at* <http://www.webcitation.org/65yEKuckN> [hereinafter Microsoft Agreement].

32. NCAs typically detail: a specified time period when competition is prohibited; the territory/geography in which competition is prohibited; and competitors or work sectors in which competition is prohibited. In the Microsoft agreement, *supra*, the covenant provided:

While employed at MICROSOFT and for a period of one year thereafter, I will not: (a) accept employment or engage in activities competitive with products, services or projects (including actual or demonstrably anticipated research or development) on which I worked or about which I learned confidential or proprietary information or trade secrets while employed at MICROSOFT; (b) render services...to any client...or MICROSOFT for which I performed services during the twelve months prior to leaving MICROSOFT's employ....

Google, Inc. v. Microsoft Corp., 415 F. Supp. 2d 1018, 1019 (2005).

33. NSAs are an additional restrictive covenant meant to stem further employee attrition and consequent loss of know-how. NSAs typically target as actionable under the agreement certain classes of employees or customers who leave along with a departing employee. In the Microsoft agreement, *supra*, the covenant provided: "While employed at MICROSOFT and for a period of one year thereafter, I will not . . . (c) induce, attempt to induce, or assist another to induce or attempt to induce any person to terminate his employment with MICROSOFT or to work for me or for any other person or entity." *See Microsoft Agreement, supra* note 31.

secret misappropriation.<sup>34</sup> Furthermore, actionable claims for breach of these employment agreements typically are triggered earlier than are tort claims.<sup>35</sup> For example, an employee departure for a competitor will prompt a legal response for breach of the employment agreement, well before discovery of trade secret theft or misappropriation would generate a tort claim.<sup>36</sup> The employment agreements are directed at incoming employees as well as outside professionals working with the business.<sup>37</sup> It should be noted however, that such restrictive covenants are not universally recognized, especially NCAs<sup>38</sup> since they effectively restrict employee opportunity and mobility, salary optimization, and they are potentially anticompetitive in restraint of trade.<sup>39</sup>

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34. See POOLEY, *supra* note 31, at § 8.04[8] (detailing purpose of nonsolicitation clauses in an employment agreement).

35. See *Computer Assoc's Int'l v. Altai, Inc.*, 918 S.W.2d 453, 456-57 (Tex. 1996) (describing that the statute of limitations for trade secret misappropriations provides for a need of earlier discovery than does the statute of limitations for tort claims).

36. See *id.* at 457 (explaining that a former employee's departure to work for a competitor should create suspicion for breach of confidentiality agreement).

37. See *Fullerton Lumber Co. v. Torborg*, 70 N.W.2d 585, 588 (Wis. 1955) (contrasting the scope of trademark protection in vendor-vendee and employment contracts).

38. See CAL. PROF. BUS. CODE § 16600 (2012) (indicating that California does not recognize non-compete agreements). In California, NCAs in employment contracts are *per se* void. See *id.* See *Silguero v. Creteguard, Inc.*, 187 Cal. App. 4th 60, 62 (Cal. Ct. App. 2d Dist. 2010) (noting California has consistently favored open competition and employee mobility).

39. See, e.g., Edward M. Spiro & Judith L. Mogul, *Southern District Civil Practice Roundup: Preliminary Injunctions In Non-Compete Cases*, 242 N.Y. L.J. No. 65 at 3 (Oct. 1, 2009) (noting the tension between employers' need to protect information with public policy concerns about limiting competition and employees' ability to work); Matt Marx, Deborah Strumsky & Lee Fleming, *Mobility, Skills, and the Michigan Non-Compete Experiment*, 55 MGMT. SCI. 875, 878 (June 2009) (reviewing how enforcement of NCAs attenuates mobility); Sarah J. Taylor, Comment, *Fostering Economic Growth in the High-Technology Field: Washington Should Abandon its Recognition of the Inevitable Disclosure Doctrine*, 30 SEATTLE U. L. REV. 473, 488-89 (2007) (discussing the validity of NCAs).

Protecting trade secrets is clearly a high priority for knowledge businesses that rely on innovation of intangibles, such as software updates with rapid product releases for which patenting accomplishes very little.<sup>40</sup> The modern concept of trade secret law developed in response to employees' increased mobility during the Industrial Revolution.<sup>41</sup> The first American case concerning trade secrets is widely agreed to be *Vickery v. Welch*<sup>42</sup> concerning a dispute over contractual rights for the exclusive use of a secret recipe for making chocolate.<sup>43</sup> The view of a trade secret as property, and thus a legally protectable interest, developed in the 1868 case *Peabody v. Norfolk*,<sup>44</sup> with facts that are remarkably similar to our current cases.<sup>45</sup> Plaintiff filed suit against an employee who left to work for a competitor that was developing the same process for manufacturing.<sup>46</sup> The first codified model act consolidating trade secrets law is found in the original Restatement of Torts, first published in 1939.<sup>47</sup> As trade secret protection case law grew rapidly, it became a specialized practice area exceeding the scope of the Restatement

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40. See Julie Samuels, *Why the Patent System Doesn't Play Well with Software: If Eolas Went the Other Way*, ELEC. FRONTIER FOUND., archived at <http://www.webcitation.org/66nvURhEX> (listing reasons why software developers choose not to patent their work).

41. See Milton E. Babirak, Jr., *The Virginia Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law*, 5 VA. J.L. & TECH. 15, \*3 (2000) (accounting the development of trade secret law). Attorney Babirak noted as well Roman protection of trade secrets, *Id.* at \*2 (citing A. Arthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corruptio*, 30 COLUM. L. REV. 837 (1930)).

42. 36 Mass. 523, 523 (1837).

43. See *id.* at 523 (ruling that such an agreement was not an unlawful restraint on trade). Massachusetts has been a key state in developing a trade secrets law. See CATHERINE L. FISK, *WORKING KNOWLEDGE: EMPLOYEE INNOVATION AND THE RISE OF CORPORATE INTELLECTUAL PROPERTY, 1800-1930* 94-95 (2009).

44. 98 Mass. 452, 452 (1868).

45. See *id.* at 452 (dealing with the secret invention of a mill).

46. See *id.* at 461 (overruling defendant's demurrer, holding that a court of chancery will protect against this violation of contract and breach of confidence). See also Ranier M. Kohler, *Trade Secrets*, 7 B.C. L. REV. 324, 325 (1966) (indicating why protection of trade secrets is desirable).

47. See RESTATEMENT (FIRST) OF TORTS § 757 (1939) (discussing the liability of disclosure of another's trade secrets).

of Torts.<sup>48</sup> The Restatement now addressing trade secret law is the Restatement of Unfair Competition, and this creates complementary protection for trade secrets.<sup>49</sup> The first codified model act dedicated to trade secrets, UTSA, was first published in 1939.<sup>50</sup>

Since trade secret law is tort-based and thus developed by the individual states' common law, states enjoy the freedom to create their own regulatory framework in this practice area.<sup>51</sup> There continues to be a significant range of differences among states on substantive laws of trade secrets for this reason; some states passed UTSA in its entirety, other states passed UTSA selectively; and still others did not adopt any part of UTSA, opting instead for their own construction of trade secret law.<sup>52</sup> Among

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48. See Pooley, *supra* note 31, at § 2.04[1] (describing the changing climate in trademark law to necessitate the change).

49. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1 (1995) (generally addressing the issue of trade secret law). This Restatement is directed at actions under either states' common law or UTSA. See *id.* at § 39, cmt. b.

50. See Taylor, *supra* note 39, at 478 (presenting the history of codified models dealing with trade secret protection).

51. See Pooley, *supra* note 24, at § 10.07[2] (noting that "[t]rade secret law, at least as to civil actions, is primarily a matter of state jurisprudence"). The UTSA is a model act, drafted by the National Conference of Commissioners on Uniform State Laws, approved and recommended for enactment in all states. See BRENT A. OLSON ET AL., CAL. BUS. LAW DESKBOOK § 30:1 (2011 ed.). Each state is encouraged to pass it, but remains free to codify its own trade secrets law, borrowing or not, in whole or in part, from this uniform act. See *id.* It is important to note that there is a federal trade secrets law, the Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-1839 (2012) [EEA], though it is beyond the scope of this research because the EEA is directed primarily at trade secret theft or misappropriation by foreign agents or governments; and charges are heard by the U.S. International Trade Commission. See Spencer Simon, *The Economic Espionage Act of 1996*, 13 BERKELEY TECH. L.J. 305, 305-06 (1998) (citing legislative history and testimony by then-FBI Director Louis J. Freeh).

52. See Stephanie Soondar, *Practice Guide: Post-Employment Trade Secrets in New York*, 1 PACE I.P., SPORTS & ENTMT L.F. 1, 4 (2011), archived at <http://www.webcitation.org/660xwR8dz> (noting that most states have adopted some form of the UTSA, however New York has not); see also JOHN R. THOMAS, CONG. RESEARCH SERV., R41391, THE ROLE OF TRADE SECRETS IN INNOVATION POLICY 7 (2010) (citing that "many jurisdictions have enacted the UTSA after making some changes to the original...[o]pinions vary on how significant these



the latter group of states, some enacted civil statutes covering trade secrets, others opted to continue following their common law of trade secrets.<sup>53</sup> This lack of uniformity becomes highly problematic though, for employees as well as for their past, present and future employers.<sup>54</sup> Quirky differences among jurisdictions suddenly create doubts as to the enforceability of trade secret protections when there are conflicts between the states' laws, and more.<sup>55</sup> Clearly, states' laws with their unique variations become highly relevant to this practice area since jurisdiction, choice of laws, and venue are outcome-determinative in this crazy quilt of inconsistent trade secret jurisprudence.<sup>56</sup> This variegated condition of trade secret laws as to acts they prohibit and punishments they impose causes associated inefficiencies.<sup>57</sup> This has been roundly criticized, prompting a number of proposals including calls for federalizing trade secrets entirely, the only intellectual property regime still largely controlled by states.<sup>58</sup>

With these stipulations, we present the elements for proof of trade secret claims and establishing a case under UTSA as it is

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modifications have been..."). Scholars report state-by-state differences as minor, others describe changes as fundamental. *See id.* States not adopting the UTSA have altogether different approaches from the uniform act. *See id.*

53. David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 75 (2011) (noting only four states—Texas, New York, Massachusetts, and New Jersey—that continue to follow their common law of trade secrets).

54. *See e.g.*, Kristina L. Carey, Comment, *Beyond the Route 128 Paradigm: Emerging Legal Alternatives to the Non-Compete Agreement and their Potential Effect on Developing High-Technology Markets*, 5 J. SMALL & EMERGING BUS. L. 135, 141 (2001) (explaining innovation is supported by employee mobility in high-technology markets).

55. *See* Almeling, *supra* note 53, at 93-94 (stating there are many stakeholders in the growing importance of trade secrets and trade secret litigation who each desire the best and most current information).

56. *See infra* Part II.B.i (analyzing further the issues of jurisdiction, choice of laws, and venue in trade secret litigation).

57. *See* THOMAS, *supra* note 52, at 13 (quotations omitted) (alluding to the inefficiencies caused state by state differences in trade secret protection).

58. *See* THOMAS, *supra* note 52, at 13-14 (discussing the argument that the patchwork of state trade secret laws violates the United States' obligations under NAFTA and the Trips Agreement).

fairly representative of the many statutes and common law theories.<sup>59</sup> UTSA sections 1 and 2 are featured herein. Section 1 provides:

‘Trade secret’ means information, including a formula, pattern, compilation, program,... 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.<sup>60</sup>

Importantly for our purposes is how the UTSA distinguishes those who ascertain trade secrets by *proper* means (thus not actionable), and those who use *improper* means (thus actionable).<sup>61</sup> “Proper means” of ascertaining another’s trade secrets include: discovery by independent invention/derivation, reverse engineering, use under a license, direct observation of it on public display, or obtaining it from published literature.<sup>62</sup>

“‘Improper means’” of ascertaining another’s trade secrets include: “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy....”<sup>63</sup> Improper means furthermore encompasses misappropriation, defined in UTSA as follows:

- (i)acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

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59. See THOMAS, *supra* note 52, at 7 (indicating that the UTSA has been enacted in 46 states, the District of Columbia, and the Virgin Islands).

60. UTSA § 1(4) (emphasis added).

61. See UTSA § 1, cmt. (differentiating between proper and improper means).

62. See UTSA § 1, cmt. (listing some means of discovery that are proper).

63. UTSA § 1(1).

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- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
- (A) used improper means to acquire knowledge of the trade secret; or
  - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
    - (I) derived from or through a person who had utilized improper means to acquire it;
    - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
  - (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.<sup>64</sup>

Finally and most crucially for this work, UTSA § 2 regarding injunctions becomes the starting point for discussion of the doctrine of inevitable disclosure. Section 2 provides for two different theories for establishing trade secret in that “[a]ctual or threatened misappropriation may be enjoined.”<sup>65</sup> Interestingly the UTSA drafters did not specifically comment on this concept of threatened misappropriation or provide any scenarios of threats that courts could find sufficiently actionable.<sup>66</sup> The drafters’ comments instead focus on the factors for granting injunctions, and for this they adopted the majority position that injunctions should be limited to the extent of time and temporal advantage gained by misappropriators over good faith competitors.<sup>67</sup>

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64. UTSA § 1(2).

65. UTSA § 2(a) (emphasis added). *See also* CAL. CIV. CODE § 3426.2(a) (West 2012) (noting that California adopted the same language as UTSA, in this particular instance).

66. *See* UTSA § 2, cmt. (declining to provide a bright-line rule or examples of situations that would be actionable while explaining the significance of an injunction for UTSA purposes).

67. *See* UTSA § 2, cmt. (adopting the position that the duration of injunctive

Overall then for trade secret causes of action, trade secret owners must establish the secret's existence, its competitive value, secrecy measures, and an actual or threat of a misappropriation: the wrongful acquisition, use, disclosure, or threat of disclosure of that secret.<sup>68</sup> A recent statistical analysis of trade secret cases is particularly illuminating.<sup>69</sup> The vast majority (94%) of trade secrets involve internal business trade secrets (customer lists and business plans and information) and technical trade secrets (formulae, technical information and software code) - all exceedingly sensitive and valuable business information.<sup>70</sup> The vast majority (over 90%) of alleged misappropriators are known to trade secret owners because they are either employees or business partners.<sup>71</sup>

Trade secret litigation is on the rise, caused by the increased importance of individual employees due to the changed nature of work and to the ever faster rate of product development that drives the urgent need for established talent—as well this trend is also attributable to the proportional rise of intellectual property's value to companies' worth and competitive position.<sup>72</sup> “Trade secrets matter more than ever to the American economy.”<sup>73</sup> And despite this, the win rate for trade secret owners is low: the study's authors report that owners prevail over employees approximately 40% of the time, and that rate drops to about 30% when the suit is against

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relief should be limited to the extent of the advantage over good faith competitors gained by misappropriation).

68. See Almeling, *supra* note 53, at 91-92 (stating that a “prima facie case of trade secret misappropriation has anywhere from two to six elements” and there is no single test).

69. See Almeling, *supra* note 53, at 58 (outlining the article's analysis).

70. See Almeling, *supra* note 53, at 60 (stating a key finding from the article's state study).

71. See Almeling, *supra* note 53, at 69 (noting that the alleged misappropriators are employees or business partners in 93% of state cases and 90% of federal cases); see also Kurt M. Saunders, *The Law and Ethics of Trade Secrets*, 42 CAL. W. L. REV. 209, 212 (2006) (noting the majority of trade secret cases arise within the context of departing employees).

72. See Almeling, *supra* note 53, at 93 (highlighting reasons for an increasing number of state and federal trade secret cases).

73. Almeling, *supra* note 53, at 93.

business partners.<sup>74</sup> Employee turnover has skyrocketed over the past twenty years as have the lawsuits.<sup>75</sup> This litigation is not about the win—clearly, the motivations for these lawsuits involve more than the actual trade secret at risk.<sup>76</sup>

With employees prevailing at such high rates, this study of trade secret litigation begs the question too, of where is the line between employers' protectable proprietary business information, and employees' unprotectable knowledge; knowledge that includes ability, experience, knowledge and skills acquired during the employment relationship.<sup>77</sup> In other words, what are the limits of trade secret causes of action? Protecting trade secrets is important to encourage innovation and technological development as it assures that creators will reap the benefits.<sup>78</sup> Just what information then, are employees allowed to take to new jobs? While social welfare is maximized to the extent employees practice useful skills in demand, employers may lose out on their investment and more, due to departing employees.<sup>79</sup> Separating employers' proprietary business information from employees' knowledge and skill is made more difficult if their talents are superior and unique.<sup>80</sup>

Comments to Section 42 in the Restatement (Third) of Unfair Competition concerning breaches of confidence by

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74. See Almeling, *supra* note 53, at 87 (noting the success rates of trade secret owners bringing suit against employees and business partners).

75. See Almeling, *supra* note 53, at 93 (discussing the rise in litigation and changes in the typical work environment).

76. See Almeling, *supra* note 53, at 93 (explaining the variety of reasons for the rise in trade secret litigation).

77. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974) (describing the relationship an inventor has with the contracting employer).

78. See *id.* (outlining public policy reasons for enforcing trade secret law).

79. See Saunders, *supra* note 71 (expounding on the harms caused by departing employees). See also WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 364 (2003) (articulating the need to keep employees from "spill[ing] their employer's trade secrets....").

80. See Saunders *supra* note 71, at 218 (explaining the difficulty in separating business's proprietary interest from an employee's skilled knowledge base).

employees who use or disclose a trade secret provides guidance on this point:

Information that forms the general skill, knowledge, training, and experience of an employee cannot be claimed as a trade secret by a former employer even when the information is directly attributable to an investment of resources by the employer in the employee...[t]hus absent an enforceable covenant not to compete, a former employee may utilize in competition with the former employer the general skills, etc., acquired during the employment, but the employee remains obligated to refrain from using or disclosing the employer's trade secrets.<sup>81</sup>

The Drafters noted that each case is fact-specific, and that their distinction between protectable and unprotectable information “is intended to achieve a reasonable balance between the protection of confidential information and the mobility of employees.”<sup>82</sup> The Drafters’ final point on this distinction clarifies that “[i]f the information is so closely integrated with the employee’s overall employment experience that protection would deprive the employee of the ability to obtain employment commensurate with the employee’s general qualifications, it will not ordinarily be protected as a trade secret of the former employer.”<sup>83</sup> In this environment where so much of a business is comprised of intellectual property, employers are on the wrong side of history.<sup>84</sup> One may discern from the Drafters’ last

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81. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995) (clarifying questions concerning employees’ breaches of confidence).

82. *See id.* *See also* CVD, Inc. v. Raytheon Co., 769 F.2d 842, 852 (1st Cir. 1985) (allowing departing employees to take general knowledge and experience “effectuates the public interest in labor mobility, promotes the employee’s freedom to practice a profession, and freedom of competition.”).

83. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995) (explaining the boundary between trade secret protection and employee mobility).

84. *See id.* (highlighting the law’s desire to promote competition and employee rights).

stipulation that departing employees most closely identified with the secret will generally prevail over employers in trade secret litigation.<sup>85</sup> It is this environment that the authors consider more closely, on how it is courts construe this theory of threatened misappropriation, found in UTSA and many of the states' laws as well, especially when the Restatement of Unfair Competition apparently disfavors the doctrine of inevitable disclosure, a concept that is largely based on an abstract, not-yet-ripe-for-review legal theory.<sup>86</sup>

### *A. Doctrine of Inevitable Disclosure*

The doctrine of inevitable disclosure is a complementary legal theory to trade secret misappropriation.<sup>87</sup> In addition to protections for trade secrets based on this theory, and through the use of restrictive covenants, some jurisdictions recognize the doctrine of inevitable disclosure as companies seek more ways to protect their secrets through enjoining a departing employee from working for a competitor.<sup>88</sup>

Under the inevitable disclosure doctrine, even when there has been no actual misappropriation, a former employee will be prohibited from working for a competitor when it is shown that the former employee cannot perform his or her job without unavoidably using or disclosing a former

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85. See *id.* (observing an employee's advantage over the employer in trade secret protection).

86. See *Texas v. United States*, 523 U.S. 296, 300-01 (1998) (noting the peculiarity of sanctioning a person for conduct not yet performed). "[A] claim is not ripe for adjudication if it rests upon contingent future events that may not occur as anticipated, or may not occur at all." *Id.* (internal quotations omitted) (quoting *Thomas v. Union Carbide Agricultural Products Co.*, 473 U.S. 568, 580-81 (1985)).

87. See Melissa M. Stewart, Comment, *Minnesota and the Inevitable Disclosure Doctrine: Finding a Solution Amidst the Confusion*, 33 HAMLINE L. REV. 649, 660-61 (2010) (defining the inevitable disclosure doctrine).

88. See *id.* at 659-60 (recognizing claims for both actual and threatened misappropriation).

employer's confidential and trade secret information.<sup>89</sup>

The threat of misappropriation lies in the theory that a departing employee was hired, and can only perform this new job by inevitably relying upon trade secrets acquired in the old job, all to unfairly compete with that former employer.<sup>90</sup> Inevitable disclosure bridges the legal uncertainty of restrictive covenants and trade secret law, for it accomplishes just what the covenants seek to protect against.<sup>91</sup> This doctrine is clearly controversial, for it exacerbates conflicts between employers and employees, and highlights the fault line between legacy companies and new innovative start-ups.<sup>92</sup>

Although the doctrine may be traced to the 1919 *Eastman Kodak* case<sup>93</sup> involving technical know-how, the most famously cited support for this theory is the 1995 Seventh Circuit's then cutting-edge opinion in *PepsiCo, Inc. v. Redmond*.<sup>94</sup> During a fiercely competitive era for the sport drink market, a ten year veteran of PepsiCo (maker of "All Sport") left for Quaker Oats (maker of "Gatorade").<sup>95</sup> PepsiCo filed suit asserting that Redmond's job as a general manager meant access to strategic business plans and these amounted to company trade secrets

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89. Saunders, *supra* note 71, at 224 (explaining how the inevitable disclosure doctrine can be used "to enjoin a former employee from working for a competitor").

90. See Stewart, *supra* note 87, at 662-64 (describing the risk of a former employee disclosing trade secrets).

91. See Stewart, *supra* note 87, at 668 (recognizing that the inevitable disclosure doctrine could create an after-the-fact non-competition agreement).

92. See Stewart, *supra* note 87, at 661 (discussing the conflict between employees and their former companies).

93. *Eastman Kodak Co. v. Powers Film Prods., Inc.*, 179 N.Y.S. 325 (N.Y. App. Div. 1919) (enforcing a non-compete agreement when a departing employee possessed valuable trade Eastman Kodak trade secrets, reasoning that he would have inevitably used them in performing his new job for a competitor).

94. 54 F.3d 1262 (7th Cir. 1995). The phrase "inevitable disclosure" first appears in *E.I. DuPont de Nemours & Co. v. Am. Potash & Chem. Corp.*, 200 A.2d 428, 435-36 (Del. Ch. 1964).

95. See *PepsiCo*, 54 F.3d at 1263-64 (recounting the facts of the case).



that would inevitably be used at his new job.<sup>96</sup> The appeals court affirmed the district court's opinion that "completely adopted PepsiCo's position."<sup>97</sup> Conceding that this was not a traditional trade secret case, the court agreed that unless Redmond possessed an uncanny ability to compartmentalize information, "[his] new job posed a clear threat of misappropriation of trade secrets and confidential information," and issued an order enjoining Redmond from assuming the Quaker job for six months.<sup>98</sup> The judges in *PepsiCo* effectively extend the reach of the doctrine of inevitable disclosure to enjoin employees from departing for competitors even in the absence of an express non-compete agreement.<sup>99</sup>

In determining "inevitability," courts tend to review these cases in the context of early-stage motions for equitable relief.<sup>100</sup> The doctrine is used to establish irreparable harm in the absence of direct evidence of trade secret misappropriation.<sup>101</sup> The *PepsiCo* court articulated a three-part analysis for claims of inevitable disclosure.<sup>102</sup> First, the court considered whether there is evidence of trade secrets to which defendant was privy.<sup>103</sup> Second, the court weighed whether defendant's

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96. See *id.* at 1264 (discussing the employee's position at his previous job).

97. See *id.* at 1267 (defining the stance of the lower court).

98. See *id.* at 1267, 1268-70 (issuing an order temporarily enjoining the employee from beginning his new job and permanently enjoining the employee from using or disclosing trade secrets or confidential information). But see *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277 (Cal. Ct. App. 2002). In a case of first impression, the California court cited *PepsiCo* as the "leading case on inevitable disclosure," noting that this has been adopted by a "majority of jurisdictions," and agreed that these facts are "strikingly similar." *Id.* at 290-91. The court ultimately ruled however, that "our rejection of the inevitable disclosure doctrine is complete," mainly because of its after-the-fact nature, imposed after employment has begun and alters the relationship without the employee's assent. *Id.* at 293.

99. See *PepsiCo*, 54 F.3d at 1272 (enjoining the employee from starting his new job right away).

100. See *id.* at 1265 (seeking restraining order to enjoin the employee from working for a competitor).

101. See *id.* at 1267 n.3 (concluding that danger of irreparable harm existed).

102. See *id.* at 1265-66 (analyzing PepsiCo's misappropriation claim).

103. See *id.* at 1265 (listing PepsiCo trade secrets, including strategic and operating plans, known to defendant).

responsibilities at the new job were substantially similar and whether the two employers were competitors such that this would give the new employer an “unfair advantage” in that plaintiff’s trade secrets would “necessarily influence” defendant’s work with the new employer.<sup>104</sup> Finally, the court also cited as influential in its decision in favor of plaintiff-employer, defendant’s lack of forthrightness both in his acts before accepting the new job and in his testimony.<sup>105</sup>

As evidence of the incoherence to inevitable disclosure jurisprudence, across jurisdictions recognizing this theory, practitioners have identified four general approaches to determining inevitability.<sup>106</sup> One approach is described as a generalized, fact-driven analysis, not limited to a static list of factors but more driven by the unique facts of each case.<sup>107</sup> A second approach is described as a bad-faith driven analysis focusing on the departing employee’s as well as the new employer’s acts and intent.<sup>108</sup> A third approach focuses on the highly technical skills and information possessed by the departing employee and whether these skills are needed as well for the new job.<sup>109</sup> The fourth approach focuses on the competitiveness of the industry and the similarities between the former and the new job.<sup>110</sup>

Beyond these approaches, a number of courts have cited evidence of the following as factors favoring plaintiff-employers: the degree of competition between employers; extent of

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104. See *id.* at 1266 (summarizing PepsiCo’s arguments at the district court).

105. See *PepsiCo*, 54 F.3d at 1267 (noting lack of candor by Redmond and Quaker).

106. See Jay L. Koh, *From Hoops to Hard Drives: An Accession Law Approach to the Inevitable Misappropriation of Trade Secrets*, 48 AM. U. L. REV. 271, 286 (1998) (describing current court approaches to the doctrine of inevitable disclosure).

107. See *id.* at 286-88 (examining the simple, yet fact intensive, analysis of the nature of the employee’s jobs and trade secrets involved.)

108. See *id.* at 288-91 (listing factors establishing evidence of bad faith).

109. See *id.* at 291-94 (introducing the International Paper approach).

110. See *id.* at 294-98 (describing the most complicated approach to assessing inevitable disclosure).

similarity between job duties; objective value of trade secrets; extent of knowledge of the departing employee;<sup>111</sup> the new employer's efforts to ban use of the other employer's trade secrets; existence of a restrictive covenant;<sup>112</sup> and general policy considerations.<sup>113</sup> Though intent to misappropriate is not an element of such claims, some courts review evidence of bad faith,<sup>114</sup> especially by the new employer.<sup>115</sup>

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111. See Troy A. Martin, *The Evolution of Trade Secret Law in Texas: Is it Time to Recognize the Doctrine of Inevitable Disclosure?*, 42 S. TEX. L. REV. 1361, 1373 (2001) (noting that the inevitable disclosure doctrine was slow to be recognized). Some courts are reluctant to recognize the inevitable disclosure theory unless the departing employee is an executive and officer in possession of high level trade secrets in an intensely competitive business sector that regularly relies on trade secret protection for a competitive advantage. See *PepsiCo*, 54 F.3d at 1264 (noting that Redmond had access to inside information and trade secrets as a high-level employee). Recall that general knowledge skills and experience are not protectable trade secrets. See *CVD, Inc. v. Raytheon Co.*, 769 F.2d at 852-53 (opining that preventing employees from using general knowledge and experience gained would severely affect labor mobility).

112. See *Metito Ltd. v. General Electric Co.*, No. 05 Civ. 9478, 2009 U.S. Dist. LEXIS 12590, at\* 27, (S.D.N.Y. Feb. 18, 2009) (holding that allowing an employee to begin working as planned does not constitute tortious interference with contract). Technically, this should merely add a breach of contract claim to plaintiff's complaint, but these covenants are not always recognized, and in those jurisdictions that uphold such clauses, courts may point to covenants and impose higher expectations of employee loyalty as they agreed from the start to safeguard trade secrets. See *id.* at \*35-36. Though recent cases involving inevitable disclosure claims in which the departing employee signed a restrictive covenant suggest that this added protection actually *reduces* the claims of inevitability of disclosure. See *id.*

113. See *Mobile Mark, Inc. v. Pakosz*, No. 11 C 2983, 2011 U.S. Dist. LEXIS 99865, at \*4-5 (N.D. Ill. Sept. 6, 2011) (discussing that courts consider certain policies when evaluating whether the disclosure of trade secrets is inevitable); *IBM Corp. v. Papermaster*, No. 08-CV-9078, 2008 U.S. Dist. LEXIS 95516, at \*22 (S.D.N.Y. Nov. 21, 2008) (determining whether information constitutes a trade secret). See also Kahnke et al., *supra* note 2 (giving factors that courts have considered when applying the inevitable disclosure doctrine).

114. See Randall E. Kahnke et al., *Consistently Inconsistent: How Courts Assess the Inevitable Disclosure Doctrine*, Sept. 15, 2008, archived at <http://www.webcitation.org/66KXzdXch> (discussing that some courts require evidence of bad faith conduct before granting injunctions, and others view bad faith conduct merely as an aggravating factor).

Whatever the approach, it is a fact-intensive endeavor, and outcomes vary widely as states' application of the doctrine remain inconsistent.<sup>116</sup> One scholar notes the doctrine as, "heavily criticized and not universally followed."<sup>117</sup> Another scholar warns that the *PepsiCo* inevitable disclosure theory "has been received cautiously," while "courts have stressed the limited circumstances that warrant application of the *PepsiCo* theory."<sup>118</sup> Another scholar wrote, that among the courts that do recognize inevitable disclosure, disagreement continues regarding what elements must exist in order to apply the doctrine.<sup>119</sup> Some courts focus only on the inevitability of the disclosure, while others consider factors such as the existence of bad faith and lack of candor on the parts of the defendants or the showing of irreparable harm.<sup>120</sup> Perhaps the most quotable phrase about the doctrine was written by Judge Tinder in the *Dynergy Marketing and Trade v. Multiut Corp.*<sup>121</sup> case concerning alleged trade secret misappropriation, who wrote when dismissing the claim, "[t]here is no need to delve into the murky waters of the 'inevitable disclosure' doctrine here."<sup>122</sup> And one other court's

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115. See *id.* (listing factors to prove existence of a trade secret).

116. See Ryan M. Wiesner, Note, *A State-By-State Analysis of Inevitable Disclosure: A Need For Uniformity and a Workable Standard*, 16 MARQ. INTELL. PROP. L. REV. 211, 217 (2012) (commenting that despite a workable standard, states still apply the doctrine inconsistently).

117. Jerome P. Coleman, *Trade Secrets, Covenants, and Employee Movement: An Advanced Course*, at 5 (June 19, 2009) (unpublished presentation and paper, Cornell Univ. Sch. of Indus. and Labor Relations) archived at <http://www.webcitation.org/66KafH4Rj>.

118. See Richard F. Dole, Jr., *The Uniform Trade Secrets Act-Trends and Prospects*, 33 HAMLINE L. REV. 409, 434-35 (2010) (providing instances where courts have applied the *Pepsico* theory).

119. See David Lincicum, *Inevitable Conflict?: California's Policy of Worker Mobility and the Doctrine of Inevitable Disclosure*, 75 S. CAL. L. REV. 1257, 1263 (2002) (explaining that there has been little agreement between states on how the *Pepsico* doctrine should be analyzed).

120. See Eleanore R. Godfrey, Note, *Inevitable Disclosure of Trade Secrets: Employee Mobility v. Employer's Rights*, 3 J. HIGH TECH. L. 161, 174-75 (2004) (comparing the different definitions of "inevitability" used by courts).

121. 648 F.3d 506 (7th Cir. 2011).

122. *Id.* at 520.

read on the theory is that, “[this] doctrine treads an exceedingly narrow path through judicially disfavored territory.”<sup>123</sup>

The authors present four representative inevitable disclosure cases in Part III for readers to gain a more complete sense of the daunting issues confronting departing employees and their new employers who find themselves surprised and snagged in a web of recrimination and litigation with the old employer.<sup>124</sup> Much of the legal posturing surrounds the enforcement of rights at the pre-trial stage, with plaintiffs seeking at the outset to file in the most advantageous jurisdictions.<sup>125</sup> A brief overview of these procedural issues is featured in Part B as they are crucial to outcomes in trade secret litigation.

### *B. Pre-trial Issues in Inevitable Disclosure Cases*

Where to file suit can often be just as important as the pleadings of the substantive trade secret theories.<sup>126</sup> The pre-trial motions and hearings become the foundation for pleading the substantive claims of trade secret misappropriation, so much time and thought are devoted to this stage.<sup>127</sup>

#### *i. Jurisdiction, venue and choice-of-law*

##### *a. Jurisdiction.*

Plaintiffs who wish to proceed in federal court must first establish federal subject matter jurisdiction, and since there is no dedicated federal law of trade secrets, it is necessary to prove diversity of citizenship and damages to a property interest

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123. *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

124. *See infra* Part III (providing examples of cases involving employees in litigation with their former employer).

125. *See infra* Part B(i) (highlighting plaintiff's strategy for deciding where to file their case).

126. *See* William Lynch Schaller, *Secrets of the Trade: Tactical and Legal Considerations from the Trade Secret Plaintiff's Perspective*, 29 REV. LITIG. 729, 772 (2010) (stating that pleadings for inevitable cases are demanding).

127. *See id.* (demonstrating how specific pleading avoids discovery issues in the future).

exceeding \$75,000.<sup>128</sup> Once that threshold is met, plaintiffs must next demonstrate that the court has personal jurisdiction over defendants.<sup>129</sup> This is easy enough under a general jurisdiction analysis if defendants maintain a presence in the forum state.<sup>130</sup> The new economy employment construct is much more attenuated than ever.<sup>131</sup> Think employees overseas who depart for competitors, who have never visited the home office, located in the state in which the lawsuit is filed.<sup>132</sup> Is it constitutionally defensible to require them to appear in the forum state?<sup>133</sup> In one recent trade secret misappropriation case filed in a California federal district court, sixteen of the seventeen defendants were Taiwanese nationals working in Taiwan for the plaintiff U.S. company, and the seventeenth defendant was a Canadian citizen.<sup>134</sup> The court granted defendants' motion to dismiss the lawsuit for lack of personal jurisdiction.<sup>135</sup>

In such cases when defendants are based in locations outside of forum states, exercising personal jurisdiction is a much more involved analysis under the U.S. Constitution.<sup>136</sup> Plaintiffs must establish that the nonresident defendants purposely availed themselves of the benefits and protections of the forum state, and

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128. See *id.* at 775-76 (detailing that a plaintiff must fulfill the requirements for subject matter jurisdiction if they want to bring their trade secret case to federal court); see also *Cabot Corp. v. Niotan, Inc.*, No. 08-CV-01691, 2011 WL 4625269 at \*1 (E.D. Pa. Sept. 30, 2011) (noting that jurisdiction for the case was based on diversity of citizenship).

129. See Schaller, *supra* note 126, at 777-78 (applying the personal jurisdiction requirements to a 7th Circuit decision); *Cabot*, 2011 WL 4625269 at \*4-5 (providing the standard of review).

130. See Schaller, *supra* note 126, at 776 (contrasting general and specific jurisdiction principles).

131. See *Roll Sys. Inc. v. Shupe*, No. 97-12689-GAO, 1998 U.S. Dist. LEXIS 3142, at \*5 (D. Mass. Jan. 22, 1998) (stating facts that demonstrate tenuous employment situations).

132. See *Richtek Tech. Corp. v. UPI Semi. Corp.*, No. C 09-05659 WHA, 2011 U.S. Dist. LEXIS 58354 at \*4 (N.D. Cal. Jan. 3, 2011) (highlighting fact that none of the defendants were United States citizens).

133. See *id.* at \*11-12 (granting motion to dismiss based on lack of personal jurisdiction).

134. See *id.* at \*4 (identifying the defendants).

135. See *id.* at \*18 (granting the motion with prejudice).

136. See U.S. CONST. amend. XIV, § 1 (providing the Due Process Clause).

that the contacts with the forum state created 'substantial connections' with the forum state, such that hailing them into that state's court does not offend traditional notions of fair play and substantial justice.<sup>137</sup> Some courts use an "effects test" and will find that plaintiffs meet this jurisdictional test merely when the injury is felt in that state—even if the injurious events take place entirely outside of its borders.<sup>138</sup> Other courts take a narrower view and require more than "mere economic injury" to home state plaintiffs to justify hailing nonresident defendants into their courts.<sup>139</sup> In these jurisdictions, the injury must be accompanied by defendants' own contacts with the forum state to satisfy the constitutional requirements of personal jurisdiction.<sup>140</sup> Clearly in new innovation-driven businesses, personal jurisdiction will be more difficult to plead.

*b. Venue and forum selection*

Procedural issues related to trade secret misappropriation cases will proliferate due to the multi-jurisdictional aspects of employees and operations.<sup>141</sup> Even where courts have subject matter and personal jurisdiction over defendants, defendants may seek to transfer the venue of the litigation.<sup>142</sup> In many cases,

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137. See *e.g.*, *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 475 (1985) (explaining the purposeful availment requirement); *Calder v. Jones*, 465 U.S. 783, 788-89 (1984) (stating minimum contacts is justifies jurisdiction over defendant); *Shaffer v. Heitner*, 433 U.S. 186, 203 (1977) (discussing due process and its connection to personal jurisdiction); *Hanson v. Denckla*, 357 U.S. 235, 253 (1958) (stating unilateral activity by plaintiff not sufficient for jurisdiction); *Int'l Shoe Co. v. Wash.*, 326 U.S. 310, 316 (1945) (overturning historical method of personal jurisdiction).

138. See Schaller, *supra* note 126, at 778 (articulating the effects test for jurisdictional purposes).

139. See Schaller, *supra* note 126, at 779 (describing the mere economic injury test).

140. See Schaller, *supra* note 126, at 778-79 (providing an example where defendant's contacts had to accompany plaintiff's alleged injury for jurisdiction).

141. See Schaller, *supra* note 126, at 788-89 (discussing jurisdictional issues related to trade secret misappropriation).

142. See Schaller, *supra* note 126, at 788-89 (outlining the relationship between jurisdiction and venue).

the parties have agreed ahead of time in a forum selection clause, usually found in a restrictive covenant, that any litigation between the parties shall occur in a particular forum.<sup>143</sup> Absent such a provision, under 28 U.S.C. § 1404(a), courts have the power to transfer civil actions to another district where it might have been brought.<sup>144</sup> This is especially important in current trade secret misappropriation cases, as parties are likely to be in different locales.<sup>145</sup> The relevant inquiry for venue cases is “which forum best serves the convenience of the parties, the convenience of the witnesses, and the interests of justice.”<sup>146</sup>

*c. Choice of law*

“Choice of law can be complex in trade secret cases.”<sup>147</sup> In general though, absent a choice of law provision in a restrictive covenant agreed to by the parties, courts apply the choice of law rules of that state.<sup>148</sup> And even if there should be a choice of law clause, courts may decide not to honor it if, for example, application of that provision would (1) be contrary to a fundamental policy of that state; (2) which has a materially greater interest than the chosen state; and (3) would have been

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143. See Schaller, *supra* note 126, at 780 (stating that a forum selection clause may resolve the dispute over venue).

144. See 28 U.S.C. § 1404(a) (2012) (providing a means for transferring cases to the appropriate federal district court); see also *Wilwerding v. Edwards*, No. 08-03025-CL, 2008 U.S. Dist. LEXIS 115696, at \*4-5 (D. Or. Aug. 13, 2008) (addressing the relevant factors for determining whether to transfer a case to a different venue that include location of parties, evidence, witness, transactions, and other contacts under 28 U.S.C. § 1404(a)).

145. See Schaller, *supra* note 126, at 780-83 (discussing the jurisdictional nature of trade secret cases and procedural issues arising from this).

146. See *TriQuint Semiconductor, Inc. v. Avago Tech. Ltd.*, No. CV-09-01531-PHX-JAT, 2011 U.S. Dist. LEXIS 38200, at \*6 (D. Ariz. Mar. 29, 2011) (indicating that court has the power to transfer venue based on convenience and fairness); see also Schaller, *supra* note 126, at 782-83 (noting that the defense usually seeks a transfer based on alleged inconvenience).

147. See Schaller, *supra* note 126, at 786.

148. See *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487, 496 (1941) (addressing conflict of law issue with Delaware law); RESTATEMENT (SECOND) OF CONFLICTS OF LAW § 187 (1971) (expounding that the choice of law of the state will govern the contractual rights of the parties).



the state had there not been a provision.<sup>149</sup> This is especially important in instances in which the substantive laws of states are different such as is the case with the inevitable disclosure doctrine.<sup>150</sup> By way of example, consider that California adopted UTSA, but in the *Whyte v. Schlage* case, the state rejected the inevitable disclosure theory.<sup>151</sup> And compare California to Massachusetts which has not adopted UTSA, but Massachusetts does recognize the inevitable disclosure theory.<sup>152</sup> What happens to a high-level tech professional for example, who works in the California office of a Massachusetts-based company and later departs for a new opportunity, also in California, but the lawsuit is brought in Massachusetts—whose law should apply? California's policies against employee restraints are described as "fundamental"—and Massachusetts law does not evidence that same commitment to employees.<sup>153</sup> This is a "costly, confusing and uncertain inquiry."<sup>154</sup> Furthermore, courts must make claim-by-claim determinations on choice of law as to each allegation, and for complex cases, this becomes tremendously burdensome.<sup>155</sup> The two takeaways with respect to choice of law provisions is that they may or may not have effect, and that states

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149. See RESTATEMENT, *supra* note 148 (giving the reasons courts may choose not to abide by choice of law provisions within a restrictive covenant or other contract). The concept of comity is a related principle in which laws have no force beyond territorial limits, but may be extended as a courtesy to another jurisdiction for the promotion of justice, based on mutual utility and advantage. See *Advanced Bionics, Corp. v. Medtronic, Inc.*, 59 P.3d 231, 237 (Cal. 2002).

150. See *Whyte*, 125 Cal. Rptr. 2d at 290 (articulating that under the doctrine of inevitable disclosure, "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets.").

151. See *id.* at 294 (stating the holding of the case).

152. See *Lombard Med. Tech., Inc. v. Johannessen*, 729 F. Supp. 2d 432, 442 (D. Mass. 2010) (finding that disclosure in this case would be inevitable).

153. See *Roll Sys., Inc.*, 1998 U.S. Dist. LEXIS 3142, at \*5 (D. Mass. Jan. 22, 1998) (discussing California law in a Massachusetts' case concerning use of possible trade secrets by former employee).

154. Schaller, *supra* note 126, at 788.

155. See *Lam Res. Corp. v. Deshmukh*, 157 F. App'x 26, 27-28 (9th Cir. 2005) (illustrating a case in which the court made a claim by claim determination to ascertain the applicable law).

with the strongest policies will ultimately have a greater influence on the outcomes of contested choice of law provisions.<sup>156</sup>

*ii. Motions for equitable relief: temporary restraining orders and preliminary injunctions in trade secret cases*

The inevitable disclosure doctrine is “generally considered in the early stages of a case, prior to discovery, in the context of whether there is a sufficient risk of irreparable injury to support” equitable relief.<sup>157</sup> Virtually every court considering these motions cautions that these are extraordinary remedies to be used sparingly.<sup>158</sup> The reality in trade secret cases however, is that equitable remedies are the primary rule rather than the exception.<sup>159</sup> At the outset, it is interesting to note that timing issues arise in equitable relief motions.<sup>160</sup> For example, if the trade secret is already in the public domain because it was legally obtained or even misappropriated, courts will not grant an injunction because there is no irreparable injury to prevent.<sup>161</sup> The request for relief therefore, is moot.<sup>162</sup> Requesting relief too early is problematic in a different way.<sup>163</sup> Such cases suffer from

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156. See *id.* at 28 (demonstrating that multiple court rulings on choice of law preceded a final determination that California law should apply in an inevitable disclosure case to an employee who had worked in the company’s Washington office).

157. *Metito*, 2009 U.S. Dist. LEXIS 12590, at \*34.

158. See *Metito*, 2009 U.S. Dist. LEXIS 12590, at \*34-35 (describing the court’s hesitation to restrict employee’s freedom where actual harm is unlikely, as the court noted that applying the doctrine “would at a minimum require a very strong showing that disclosure is truly inevitable”).

159. See Schaller, *supra* note 126, at 807 (stating that injunctive relief is the primary and normal relief for trade secret cases).

160. See *Dorel Juv. Grp., Inc. v. DiMartinis*, 495 F.3d 500, 502 (7th Cir. 2007) (setting forth a case in which the plaintiff was only concerned about the defendant’s disclosure of trade secrets until the time that the information was scheduled to be released to the public).

161. See *id.* at 502-03 (declining to grant an injunction because plaintiff failed to show a reasonable likelihood of success and substantial threat of immediate irreparable harm).

162. See *id.* at 503 (affirming denial of the preliminary injunction because of mootness since plaintiff’s products had already been released to the public).

163. See Schaller, *supra* note 126, at 809 (introducing the “premature

a ripeness problem as the litigation may be premature since it potentially awards a remedy without injury.<sup>164</sup> This is perhaps the case with inevitable disclosure cases, in which plaintiffs are asserting that while there is no actual harm, harm will arise inevitably.<sup>165</sup> Inevitable disclosure cases in fact, are classic examples of ripeness problems.<sup>166</sup> While courts recognize this seeming paradox, it does not appear to be fatal to claims, with judges typically reasoning that the point of injunctive relief in many cases is to prevent injury.<sup>167</sup>

Plaintiffs often first request a temporary restraining order (TRO) with expedited discovery, which issues after written notice to defendants and a hearing,<sup>168</sup> though more extremely, plaintiffs motion for an *ex parte* TRO, and additional proof is necessary showing that “immediate and irreparable injury will be sustained *before notice can be given or a hearing held.*”<sup>169</sup> Following the TRO hearing, plaintiffs will request a preliminary injunction lasting throughout the pendency of the case.<sup>170</sup> The Supreme Court reiterated the factors used in evaluating motions for preliminary injunctions in *Winter v. National Resources Defense*

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litigation” argument).

164. See Schaller, *supra* note 126, at 809 (noting the backwards nature these kinds of claims can take on).

165. See Schaller, *supra* note 126, at 810 (drawing a parallel between inevitable disclosure cases and those with a ripeness problem).

166. See Schaller, *supra* note 126, at 809 (illustrating that inevitable disclosure cases are granting a relief prior to actual injury).

167. See Schaller, *supra* note 126, at 809 (distinguishing that relief is allowed without injury because the court’s aim is the prevention of injury).

168. See *Home Line Furniture Indus. v. Banner Retail Mktg.*, 631 F. Supp. 2d 628, 631-33 (E.D. Penn. 2009) (showing factors determining whether a TRO will issue are “(1) an injunction is necessary to prevent immediate and irreparable harm; (2) greater injury would result from refusing an injunction than from granting it; (3) an injunction would properly restore the parties to their status immediately prior to the alleged wrongful conduct; (4) the movant is likely to prevail on the merits of the action; (5) the requested injunction is reasonably suited to abate the offending activity; and (6) an injunction would adversely affect the public interest”).

169. *Id.* at 629-30 (emphasis added) (finding that an *ex parte* TRO for trade secrets at risk was inappropriate on these facts, because it was issued in contravention of the civil procedure rules).

170. See *id.* at 629 (stating when a court may issue a preliminary injunction).

*Council*.<sup>171</sup> “A plaintiff seeking a preliminary injunction must establish [1] that he is likely to succeed on the merits, [2] that he is likely to suffer irreparable harm in the absence of preliminary relief, [3] that the balance of equities tips in his favor, and [4] that an injunction is in the public interest.”<sup>172</sup>

It becomes readily apparent how these procedural strategies work and fit together. Establishing a court’s jurisdiction over the case, as well as over the defendants, and then securing favorable rulings on venue and choice of law, is a set-up for a successful equitable relief claim.<sup>173</sup> As to the four preliminary injunction factors: likelihood of success on the merits, this will always be the case in inevitable disclosure allegations except in those jurisdictions disavowing the doctrine.<sup>174</sup> Likelihood of suffering irreparable harm: again, in inevitable disclosure jurisdictions, this directly follows on the first factor.<sup>175</sup> This second factor has been since the *PepsiCo* case,

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171. See 555 U.S. 7, 20 (2008) (stating the requirements a plaintiff must establish before a court will provide a preliminary injunction).

172. *Id.*; cf. *Oce North America, Inc. v. Brazeau*, No. 09-C-2381, 2010 U.S. Dist. LEXIS 25523, at \*7 (N.D. Ill. Mar. 18, 2010) (stating “to obtain a preliminary injunction, plaintiff must show that it has a likelihood of success on the merits of its claims, it has no adequate remedy at law and will suffer irreparable harm if an injunction is not issued, and its injury outweighs any injury an injunction may inflict on defendant”). There is a fair amount of variability in outcomes as courts seem to weigh the factors differently. Compare *Aspect Software, Inc. v. Barnett*, 787 F. Supp. 2d 118, 125 (D. Mass. 2001) (citations omitted) (analyzing the issue in a Massachusetts case as “[t]he *sine qua non* of this four-part inquiry is likelihood of success on the merits: if the moving party cannot demonstrate that he is likely to succeed . . . the remaining factors become [irrelevant]”), with *Global Switching, Inc. v. Kasper*, No. CV-06-412 (CPS), 2006 U.S. Dist. LEXIS 44450, at \*33-34 (E.D.N.Y. June 29, 2006) (citations omitted) (opining that “[i]rreparable harm is the single most important prerequisite for the issuance of a preliminary injunction” in a New York case). See also *Dole, Jr.*, *supra* note 28, at 176-78 (describing jurisdictional differences regarding what a plaintiff must show in order to obtain injunctive relief).

173. See *Dole, Jr.*, *supra* note 28, at 176-78 (illustrating the importance of securing a particular court’s jurisdiction over a matter due to the jurisdictional variations on injunctive relief).

174. Cf. *Pooley*, *supra* note 31, at §7.02[2][b][i] (discussing how the four-factor analysis proceeds).

175. See *Pooley*, *supra* note 31, at §7.02[2][b][i] (explaining the “two-part

generously construed in favor of plaintiffs, with courts granting motions though the facts are not fully known.<sup>176</sup> The balance of equities favors plaintiff: this may be so in cases where bad faith is evident, but this may not be apparent at early stage motions though it will be more fully explored at trial.<sup>177</sup> Finally, that an injunction is in the public's interest: this is perhaps the least explored by courts, and least defensible of plaintiff's preliminary injunction arguments.<sup>178</sup> TROs and preliminary injunctions are powerful weapons as against a departing employee who has not yet used or disclosed any trade secrets to a new employer (especially as they are possibly no longer useful or relevant in rapidly evolving businesses), and who in fact becomes unemployed if plaintiffs receive a favorable ruling.<sup>179</sup> This issue is further explored in Part IV *infra*.

### III. Representative Inevitable Disclosure Cases

The doctrine of inevitable disclosure is best considered in the context of a representative sample of decisions. The cases illustrate how courts' reliance on the doctrine often overprotects trade secrets while simultaneously leaving departing employees out of work.<sup>180</sup> Courts agreeing with an employer's perspective

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test" where a strong showing of likelihood of prevailing on the merits allows a weaker showing of irreparable harm).

176. See *PepsiCo*, 54 F.3d at 1272 (holding that defendant's new employment would inevitably lead to disclosure, without requiring proof that any had taken place or was likely to take place).

177. See *Pooley*, *supra* note 31, at §7.02[2][b][i] (discussing the balance of hardship as it favors the plaintiff in instances of deliberate espionage).

178. See Joseph E. Mahady, *Burying the Inevitable Disclosure Doctrine in the Nooks and Crannies: The Third Circuit's Liberal Standard for Trade Secret Misappropriation in Bimbo Bakeries USA, Inc. v. Botticella*, 56 VILL. L. REV. 699, 699 (2012) (describing the impact of public interests upon the inevitable disclosure doctrine and case law as being "very unsettled and controversial").

179. See Kenneth R. Berman, *Litigating Preliminary Injunctions: Sudden Justice on a Half-Baked Record*, 15 No. 4 PRAC. LITIGATOR 31, 33 (2004) (describing the injunction process as being "dispositive," such that, "if the [preliminary] injunction is granted, the defendant may well find something else to do, go onto another deal, or throw in the towel.").

180. See *IBM*, 2008 U.S. Dist LEXIS 95516, at \*43-44 (holding that IBM's business interests "substantially outweigh the harm resulting to [the defendant former employee] from temporarily not working for [a

construe the balance of equities in favor of employers over employees.<sup>181</sup> Even when employees sign a hygiene agreement with a new employer, each agreeing not to use or disclose the former employer's trade secrets, the doctrine of inevitable disclosure forecloses the employee's ability to work for a competitor, without any reasonableness standard governing review of allegations concerning inevitable disclosure.<sup>182</sup>

*A. IBM v. Papermaster – Federal District Court in New York  
Applying New York Law*

*IBM v. Papermaster*<sup>183</sup> illustrates the significance of one court's excessively broad interpretation of inevitable disclosure and the outsize impact choice of law has on the outcome.<sup>184</sup> In this case the employee departed IBM, based in New York, for Apple, based in California, for a job unlike the IBM work and where the degree of competition between the two companies was questionable.<sup>185</sup> The case highlights the significant prohibitions on employee mobility resulting from issuance of a temporary restraining order based on New York's recognition of the inevitable disclosure doctrine.<sup>186</sup> The case was brought in

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competitor]...."); *Bimbo Bakeries USA v. Botticella*, 613 F.3d 102, 117-19 (2010) (addressing the requirements for, and satisfaction of, those elements necessary to uphold the lower court's plaintiff-friendly holding); *Aspect Software*, 787 F. Supp. 2d at 131-32 (granting the Plaintiff's Motion for Preliminary Injunction, resulting in his forfeiture of his position at the subsequent employer).

181. See *EarthWeb*, 71 F. Supp. 2d at 308 (noting that for the second element of the preliminary injunction standard, the moving party can show "either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits . . . and a balance of hardships tipping decidedly in . . . favor [of the movant].").

182. See *id.* at 311 (explaining that with no non-compete agreement within the doctrine to test for reasonableness, courts have to deal with a more uncertain standard for "inevitability").

183. No. 08-CV-9078, 2008 U.S. Dist. LEXIS 95516 (S.D.N.Y. Nov. 21, 2008).

184. See *IBM*, 2008 U.S. Dist. LEXIS 95516, at \*18-23 (applying New York law and the "irreparable harm" standard of review to find for IBM).

185. See *id.* at \*15-16 (describing Apple's recruitment process of Papermaster and how he accepted a position at Apple while still holding a position with IBM).

186. See *id.* at \*18 (stating that IBM filed a temporary restraining order once

federal district court in New York, which had diversity jurisdiction on IBM's motion for a preliminary injunction.<sup>187</sup>

Mark Papermaster worked primarily in product design and development roles in IBM's systems and technology group from 1991 until 2006.<sup>188</sup> His positions included that of Vice President of the Microprocessor Technology Development where he became the top expert in IBM's "Power" architecture, and later as Vice President of IBM's Blade Development Unit within Systems and Technology.<sup>189</sup> In 2006, when Papermaster joined IBM's elite Integration and Values team that developed corporate strategy, he had access to confidential information including strategy and marketing, product development and business opportunities, and consequently he was required to sign a non-compete agreement restricting him from working for a competitor for one year after termination of employment within the same geographic areas for which he had job responsibilities at IBM.<sup>190</sup> He also agreed to a two-year non-solicitation covenant requiring him to forego soliciting IBM customers with which he had done business in the year prior to termination and also prohibited from soliciting IBM employees for two years after termination.<sup>191</sup> Papermaster also served on a leadership team that recruited IBM's talented technical workforce.<sup>192</sup> Immediately following his departure on October 24, 2008, IBM secured a temporary restraining order prohibiting Papermaster

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the company found out that Papermaster accepted a job with Apple).

187. *See id.* at \*1 (providing that the court had diversity jurisdiction on IBM's claim against Papermaster).

188. *See id.* at \*5 (detailing Papermaster's role with IBM).

189. *See id.* at \*5-6 (noting that Papermaster was an expert microprocessor and well respected micro chip designer). A "blade" is a small server that fits together with other blades within a blade center and each blade may be dedicated to a single application. *See id.* at \*7.

190. *See IBM*, 2008 U.S. Dist. LEXIS 95516, at \*7-11 (acknowledging that Papermaster had access to confidential information in regards to his role with IBM and that he signed a Noncompetition Agreement to not work for a competitor for a year after leaving IBM).

191. *See id.* at \*11 (detailing the Noncompetition Agreement that Papermaster agreed to which included a Nonsolicitation Covenant).

192. *See id.* at \*8 (explaining Papermaster's role on the Technical Leadership Team).

from starting at Apple due to the risk of inevitable disclosure of IBMs trade secrets.<sup>193</sup>

IBM immediately filed a motion for a temporary restraining order after it became aware of Papermaster's employment at Apple.<sup>194</sup> IBM asserted that Papermaster's employment at Apple would irreparably harm IBM due to his possession of trade secrets and sensitive information.<sup>195</sup> The court noted the following factors associated with a trade secret determination:

(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.<sup>196</sup>

The court next weighed whether the risk of disclosure of trade secret information by Papermaster through his work at Apple was inevitable.<sup>197</sup> Here the court considered the following factors:

(1) the extent to which the new employer is a direct competitor of the former employer; (2)

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193. *See id.* at \*3 (describing how "Power Architecture" is important to IBM's development of microprocessors, and how they wanted to prevent Papermaster from disclosing their technique to a competitor).

194. *See id.* at \*18 (stating that IBM filed a temporary restraining order after the preliminary injunction hearing).

195. *See id.* at \*21 (pointing to IBM's reasoning behind filing an preliminary injunction against Papermaster).

196. *IBM*, 2008 U.S. Dist LEXIS 95516, at \*22.

197. *See id.* at \*22-23 (providing that the court had to determine whether Papermaster misappropriated the information or whether disclosure of the information was inevitable).



whether the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; (3) the extent to which the trade secrets at issue would be valuable to the new employer; and (4) the nature of the industry and its trade secrets.<sup>198</sup>

The testimony as to whether IBM and Apple are competitors was mixed.<sup>199</sup> IBM's experts testified that the two companies were competitors.<sup>200</sup> Yet Papermaster and others testified that IBM focused on high performance business systems such as IT infrastructure and providing specialized hardware and software to corporate clients.<sup>201</sup> Apple, in contrast, designs, manufactures and sells consumer electronics.<sup>202</sup> In fact, when Apple initially spoke with Papermaster in 2008, concerns arose at Apple that his expertise developed at IBM would not readily translate to the work outlined at Apple: in the iPod and iPhone division where Apple was seeking a successor to the Senior Vice President, and thus an offer to Papermaster was delayed for a month.<sup>203</sup> In many ways, it was a confounding case. Judge Karas wrote, "[o]f course the Court recognizes that IBM does not sell MP3 players or cellphones that compete with the iPod or iPhone."<sup>204</sup> Papermaster was hired by Apple to make the iPhone and iPod more profitable by improving storage and processing

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198. *Id.* at \*23.

199. *See id.* at \*12-13 (noting the varying opinions about whether Apple is a competitor of IBM).

200. *See id.* at \*13 (highlighting that analysis revealed IBM and Apple to be competitors).

201. *See id.* at \*12-13 (asserting that Papermaster believed that IBM was not a competitor of Apple because IBM sold personal computers and servers, while Apple sold products such as the "ipod" and "iphone").

202. *See IBM*, 2008 U.S. Dist LEXIS 95516, at \*12 (highlighting the products Apple manufactures).

203. *See id.* at \*15-16 (explaining how there were concerns in regards to Papermaster's work experience, which made Apple hesitant in hiring him for their Vice President position).

204. *Id.* at \*25-26.

speed all with less power, hence microprocessor design was crucial and he had design knowledge of this from IBM.<sup>205</sup> Then the Judge wrote, “[i]t is conceded that Mr. Papermaster has spent the last two years working on a product, the blade server, that competes directly with Apple’s ‘Xserve,’ and this alone establishes that IBM and Apple directly compete. Mr. Papermaster, however, has not been hired by Apple to work on the ‘Xserve.’”<sup>206</sup> With such mixed facts, this case was hardly a candidate for emergency relief or a preliminary injunction.

The court’s conclusion that Apple was a significant competitor of IBM, that the non-compete agreement was reasonable, and that the “balance of hardships tips decidedly in [IBM’s] favor.”<sup>207</sup> Characterizing IBMs intellectual property as “its most valuable asset,” the court had to weigh this, along with the fact that IBM employs 400,000 people worldwide, against Papermaster’s “offer from Apple...a once-in-a-lifetime opportunity.”<sup>208</sup> While the court noted Papermaster would suffer a hardship by the enforcement of the non-compete agreement, it found IBM would be likely to suffer incalculable damages by the inevitable disclosure of its trade secrets.<sup>209</sup>

Ultimately, the parties settled in January 2009, with stipulations requiring Papermaster to report to IBM prior to his disclosure or use of any potentially confidential or proprietary IBM information with IBM being the sole and final arbiter of whether a technique derives from its intellectual property.<sup>210</sup>

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205. *See id.* at \*27-28 (discussing the prevalence of microprocessor technology, and Mr. Papermaster’s experience with such technologies from his time at IBM).

206. *Id.* at \*26.

207. *See id.* at \*44 (reasoning disclosure of confidential information was inevitable in Mr. Papermaster’s role at Apple).

208. *IBM*, 2008 U.S. Dist LEXIS 95516, at \*43 (explaining Mr. Papermaster’s obligations to IBM as outweighing his personal career goals).

209. *See id.* at \*42-43 (commenting on the difficulty of quantifying a competitive advantage).

210. *See* Consent Order and Stipulated Order of Dismissal with Prejudice on October 24, 2009 at 2-3, *IBM v. Papermaster*, No. 08 Civ. 9078 (S.D.N.Y. Oct. 24, 2009) archived at <http://www.webcitation.org/66ScjXBSK> [hereinafter Consent Order] (providing the terms of the settlement); *see also* Paul

Papermaster was permitted to commence work at Apple on April 24, 2009, effectively six months after his departure from IBM.<sup>211</sup>

Nonetheless, in subsequent cases from the southern district of New York and even upon appeal to the Court of Appeals for the Second Circuit, there appears to be some narrowing of this jurisdiction's approach to the inevitable disclosure doctrine.<sup>212</sup> In another IBM case, the federal district court for the southern district of New York refused to grant a preliminary injunction against Johnson, a former vice president of corporate development at IBM, where he was reluctant to sign a non-competition agreement and consequently he signed on the line provided for the employer rather than the line designated for the employee.<sup>213</sup> The *IBM v. Johnson* court found that Johnson had not signed the agreement and refused to enforce it when he went to work for Dell, admittedly a competitor of IBM.<sup>214</sup> In one other case from the southern district of New York, *Metito v. General Electric*, the federal district court refused to apply the inevitable disclosure doctrine at the summary judgment stage, noting that "[a]bsent evidence of *actual* misappropriation by an

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McDougall, *Papermaster Settlement: Apple Innovations May Require IBM's OK*, INFORMATIONWEEK, Jan. 27, 2009, archived at <http://www.webcitation.org/66SdV1cZD> (highlighting the potential for IBM to control developments at Apple by Mr. Papermaster); Philip Elmer DeWitt, *The Papermaster chronicles: An Apple vs. IBM Timeline*, CNNMONEY, Nov. 8, 2008 archived at <http://www.webcitation.org/66SdoL37L> (chronicling the timeline of Apple's hiring of Mr. Papermaster and IBM's legal reaction).

211. See Consent Order, *supra* note 210, at 2 (describing the terms of the agreement).

212. See *IBM v. Johnson*, 629 F. Supp. 2d 321, 335 (S.D.N.Y. 2009), *aff'd*, 355 Fed. Appx. 454, 454 (2d Cir. 2009) (establishing a trend towards greater protections of the employee in trade secret cases).

213. See *IBM*, 629 F. Supp. 2d at 338 (showing both the district court and the court of appeal's denial of the preliminary injunction).

214. See *id.* at 337 (highlighting the court's conclusion that IBM itself may not have believed that Johnson had properly signed the non-competition agreement). Mr. Johnson, like Mr. Papermaster, was a member of IBM's Integration and Values Team at the end of his tenure at IBM, and thus was expected to sign a similar non-compete agreement, albeit at a later date. See *id.* at 336.

employee, the doctrine should be applied in only the rarest of cases.”<sup>215</sup>

Other jurisdictions have refused to apply the inevitable disclosure doctrine even when the departing employee signed a non-compete agreement.<sup>216</sup> In *Oce North America v. Brazeau*, the Federal District Court for the Northern District of Illinois refused to enforce a non-compete against a salesman who went to work for a competitor, noting that the facts did not support such a finding of inevitable disclosure merely because a person assumes a similar position at a competitor.<sup>217</sup> The court noted that inevitable disclosure “is a viable, but exacting, method of proving misappropriation.”<sup>218</sup> The evidence indicated that defendant Brazeau worked for a number of competitors without disclosing confidential information and evidence of misappropriation was “scant, circumstantial, and dwarfed in probative value by evidence to the contrary.”<sup>219</sup> Further, the court refused to enforce the *Oce* agreement, finding it was too broad and patently unfair; further the court refused to “blue pencil” the agreement.<sup>220</sup> Clearly, some jurisdictions find the doctrine’s effect too punitive and detrimental to the departing employee to allow a virtual presumption that a departing employee will not keep his word to protect trade secrets and confidential information, particularly where the accompanying non-compete agreement is overreaching.<sup>221</sup>

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215. *Metito*, 2009 U.S. Dist. LEXIS 12590, at \*33 (citing *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999)) (emphasis added).

216. See *Oce North America*, 2010 U.S. Dist. LEXIS 25523, at \*23-24 (holding that defendant was able to work for competitors without divulging trade secrets, and, therefore, the inevitable disclosure doctrine does not apply).

217. See *id.* at \*21-23 (noting that the “cross-selling program occupied at most 3% of defendant’s time and generated only \$800,000.00 of plaintiff’s \$3.7 billion annual revenues”) (quotations omitted).

218. *Id.* at \*21.

219. See *id.* at \*24 (analyzing whether the inevitable disclosure doctrine would be advantageous to the plaintiff).

220. See *id.* at \*28 (noting the instances where courts can “blue pencil” an agreement under Illinois law).

221. See *id.* (acknowledging that “[u]nder Illinois law, the Court has discretion to ‘blue pencil’ or modify an overly broad restrictive covenant”).

*B. Bimbo Bakeries v. Botticella – Court of Appeals for the Third Circuit applying Pennsylvania Law*

In another case involving a non-competition and confidentiality agreement that resulted in a barrier to employee mobility, a high-level food industry executive was barred from employment with a competitor.<sup>222</sup> Only seven people know how Thomas' English Muffins get their nooks and crannies, a closely kept trade secret, according to the brand's owner, Bimbo Bakeries.<sup>223</sup> In *Bimbo Bakeries USA, Inc., v. Botticella*,<sup>224</sup> the Court of Appeals for the Third Circuit enforced a preliminary injunction against Chris Botticella, former Vice President of Operations at Bimbo, who accepted an offer to work at rival Hostess.<sup>225</sup> The Court of Appeals for the Third Circuit granted Botticella's interlocutory appeal of a preliminary injunction for alleged misappropriation of trade secrets issued on Feb. 9, 2010 by the federal district court in Pennsylvania.<sup>226</sup> The preliminary injunction that the court intended to last two months lasted throughout the appeal, the remand and ultimate resolution.<sup>227</sup>

The facts illustrated that Botticella, a California resident, worked for ten years at Bimbo Bakeries.<sup>228</sup> Botticella rose to Vice President of Operations for California, having responsibility for five production facilities, overseeing product quality, cost, labor issues, product development and sales promotion, and third party manufacturers who contracted with Bimbo.<sup>229</sup> Botticella had access to confidential information about Bimbo's products including codes to formulas and processes for products

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222. See William Neuman, *A Man With Muffin Secrets, but No Job With Them*, N.Y. TIMES (Aug. 6, 2010), archived at <http://www.webcitation.org/66TlZqGvA> (discussing the fact that Chris Botticella was barred from taking a job at Hostess Brands following his employment with Bimbo Bakeries).

223. See *id.* (stating the number of people who know how Thomas' muffins get their nooks and crannies).

224. 613 F.3d 102 (3d Cir. 2010).

225. See *id.* at 104 (outlining the main issue in the *Bimbo* case).

226. See *id.* (explaining the procedural history of the *Bimbo* case).

227. See *id.* (expanding upon the length of the preliminary injunction).

228. See *id.* at 105 (examining Botticella's time at Bimbo Bakeries).

229. See *id.* (detailing Botticella's career path at Bimbo Bakeries).

and business strategy.<sup>230</sup> Botticella also had access to the secrets regarding Thomas' English Muffins, a product that represented half a billion dollars in annual sales income to Bimbo.<sup>231</sup>

Botticella signed an agreement with Bimbo in March of 2009 agreeing: not to compete directly with Bimbo during his employment; not to use or disclose confidential or proprietary information during or after his employment; and to return all documents at the end of employment.<sup>232</sup> No mention was made of restrictions upon Botticella's potential places of employment when he was no longer working for Bimbo and a choice of law provision in the agreement selected Pennsylvania law.<sup>233</sup> So, even though Botticella lived and worked in California, the federal courts in Pennsylvania exercised diversity jurisdiction - even as the Third Circuit noted, "this litigation seems only marginally related to Pennsylvania."<sup>234</sup> Six months later, Hostess Brands, a competitor of Bimbo, offered Botticella a position in Texas which he accepted in October 2009 with a planned start date of January 2010.<sup>235</sup> Botticella continued to work for Bimbo through the end of 2009.<sup>236</sup> He also signed an agreement with Hostess in December 2009 that he would not bring or disclose any confidential or proprietary information or trade secrets from Bimbo.<sup>237</sup>

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230. *See Bimbo Bakeries*, 613 F.3d at 105 (listing the secrets to which Botticella was privy).

231. *See id.* (commenting on the worth of Thomas' English Muffins to Bimbo Bakeries).

232. *See id.* (delineating the obligations to which Botticella agreed in his non-compete contract).

233. *See id.* (providing more details of the non-compete agreement).

234. *See id.* (explaining why the U.S. District Court for the Eastern District of Pennsylvania had jurisdiction over the case). *See also Bimbo Bakeries USA, Inc. v. Botticella*, No. 10-0194, 2010 U.S. Dist. LEXIS 68990, at \*24 (E.D. Pa. Feb. 9, 2010) (detailing why the court had personal and subject matter jurisdiction over the case).

235. *See Bimbo Bakeries*, 613 F.3d at 105 (asserting the specifics of the Hostess Brands' offer to Botticella).

236. *See id.* at 106 (identifying Botticella's end date with Bimbo).

237. *See id.* (providing overview of agreement).

On January 4, 2010, Botticella informed Bimbo of his intention to leave the company on January 15 but Bimbo Bakeries was unaware of Botticella's intention to work for Hostess until Hostess announced such on January 12.<sup>238</sup> When Botticella was asked to leave Bimbo on January 13, computer forensics showed that he accessed twelve files in thirteen seconds and there were similar patterns of access in the weeks prior, which it could be concluded that Botticella may have copied some files.<sup>239</sup> In his testimony at the preliminary injunction hearing, Botticella admitted copying files to an external drive, but he maintained that he was practicing his computer skills to prepare for his new job, a justification that the district court did not find credible.<sup>240</sup> The court issued a preliminary injunction on February 9 prohibiting Botticella from employment at Hostess and ordering the return of confidential and proprietary information in his possession.<sup>241</sup> Despite a trial on the merits that was scheduled to take place in the district court on April 12, Botticella appealed the district court's decision to the Court of Appeals for the Third Circuit.<sup>242</sup> The preliminary injunction remained in effect during the interlocutory appeal, and in July 2010, the appellate court affirmed the district court's jurisdiction and decision on the preliminary injunction, and remanded the case to the district court for consideration on the merits.<sup>243</sup>

The appellate court reviewed the four factors the district court weighed in granting Bimbo a preliminary injunction: (1) the likelihood of success on the merits; (2) the suffering of irreparable harm absent the grant of injunction; (3) whether the grant of relief would not result in greater harm to the defendant than the plaintiff; and (4) whether public interest favored the

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238. *See id.* (describing the circumstances surrounding Botticella's leaving Bimbo Bakeries).

239. *See id.* at 107-08 (stating the findings of Bimbo's forensic expert).

240. *See id.* at 108 (restating the district court's findings).

241. *See Bimbo Bakeries*, 613 F.3d at 108 (summarizing the district court's disposition on the matter).

242. *See id.* (providing the context for the case's appeal).

243. *See id.* at 104, 119 (stating the overall procedural history and disposition of the case).

relief.<sup>244</sup> Regarding the first factor, following the Pennsylvania Uniform Trade Secrets Act, the district court concluded that Botticella had access to trade secrets and that it was likely that Bimbo would be able to prove “at trial that Botticella would misappropriate these trade secrets if allowed to work at Hostess.”<sup>245</sup> The district court noted there was “a substantial likelihood, if not *inevitability*” of Botticella disclosing trade secrets.<sup>246</sup> The trial court applied the inevitable disclosure doctrine that “a person may be enjoined from engaging in employment or certain aspects of his employment where that employment is *likely* to result in the disclosure of information, held secret by a former employer, of which the employee gained knowledge as a result of his former employment situation.”<sup>247</sup> The appellate court noted that the likelihood of disclosure rather than its inevitability was the appropriate standard for forming a basis for granting a temporary injunction against threatened misappropriation, and noted further that non-technical, as well as technical secrets, are protected under Pennsylvania law.<sup>248</sup> The grant of injunction involves a “highly fact-specific inquiry” and a trial court has the discretion to enjoin new employment if the facts “demonstrate a substantial threat of trade secret misappropriation;” thus the district court in *Bimbo* acted appropriately in granting a preliminary injunction, and applied the correct standard.<sup>249</sup> A “sufficient likelihood, or substantial threat” of disclosing trade secrets suffices rather than a standard of “virtual impossibility” of performing the new job without such

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244. See *id.* at 109 (citing *Miller v. Mitchell*, 598 F.3d 139, 147 (3d Cir. 2010)) (restating the four factors required for a preliminary injunction).

245. See *id.* at 109-10 (summarizing the district court’s analysis of Bimbo’s likelihood of success on the merits).

246. See *id.* at 110 (restating the reasoning behind the district court’s conclusion) (citations omitted) (emphasis added).

247. *Bimbo Bakeries*, 613 F.3d at 110-11 (citing *Bimbo Bakeries*, 2010 U.S. Dist. LEXIS 68990, at \*32-\*33 (citations omitted)) (emphasis added).

248. See *id.* at 111-12 (discussing the proper legal standard for granting a temporary injunction and noting the reach of Pennsylvania law) (citations omitted).

249. See *id.* at 113-14 (restating the appellate court’s standard of review regarding a trial court’s discretion and providing its reasons for affirming the district court’s holding).



disclosure, dictum in an earlier decision of the circuit court notwithstanding.<sup>250</sup>

The appellate court found that the district court did not abuse its discretion in its preliminary determination that Botticella's job at Hostess would be substantially similar to his former employment at Bimbo.<sup>251</sup> The finding that Botticella intended to use Bimbo's trade secrets was based upon sufficient evidence, including Botticella's failure to disclose his acceptance of his new job to his current employer, his receipt of confidential information while remaining at Bimbo, and his copying such information from his work computer onto external devices.<sup>252</sup>

The injunction could theoretically have been narrower, as Botticella suggests, merely proscribing his use of Bimbo's trade secrets rather than barring his employment at Hostess; however, the appellate court found that the district court did not abuse its discretion in the grant of the broader injunction at the preliminary stage.<sup>253</sup> The harm to Botticella in prohibiting his employment at Hostess until the trial on the merits would not outweigh the greater irreparable harm to Bimbo as the district court determined, although the appellate court noted that in the event that the trial determines that Bimbo is entitled to a remedy, such should not "unduly impos[e] on Botticella's right to pursue his chosen occupation."<sup>254</sup> Finally, the appellate court agreed with the trial court that a general public interest was served by granting a preliminary injunction to protect trade secrets and

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250. See *id.* at 116-17 (citing *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1232 (Pa. Super. Ct. 1989) (en banc) (reasoning the appropriate standard that should be applied). The Third Circuit in *Bimbo* clarified that dictum from *Victaulic Co. v. Tieman*, 499 F.3d 227, 234 (3d Cir. 2007) was not binding precedent that the district court should have applied as a standard in the instant case. See *id.*

251. See *Bimbo Bakeries*, 613 F.3d at 117 (providing the reasons why the district court did not abuse its discretion).

252. See *id.* at 118 (recounting key factual characteristics of the case).

253. See *id.* (giving deference to the trial court's determination of the injunction's breadth).

254. See *id.* at 118-19 (analyzing the harm caused to Botticella by injunctive relief).

uphold a confidentiality agreement.<sup>255</sup> The court conceded though that there is an additional public interest in employers and employees being able to hire and work for whom they please, and that the right of the employee is deemed more significant than that of the employer by Pennsylvania courts.<sup>256</sup>

The court applied the inevitable disclosure doctrine to enjoin Botticella's employment at Hostess where Botticella was not bound by a non-compete agreement with respect to future employment.<sup>257</sup> This outcome was unusual.<sup>258</sup> In *Papermaster*, the court relied upon the non-compete agreement's irreparable harm clause.<sup>259</sup> Also, the injunction in *Bimbo* was based upon the "sufficient likelihood or sufficient threat" that Botticella would disclose confidential information in violation of his confidentiality agreement, a particularly low standard for invoking the inevitable disclosure doctrine.<sup>260</sup> Clearly, in *Bimbo*, the court found that Botticella's hands were not quite clean in the court of equity sense, reminiscent of the lack of forthrightness noted in the *PepsiCo* case.<sup>261</sup> Botticella's downloading of Bimbo files was particularly suspect despite his asserted justification that he was practicing his computer skills in preparation for his future job.<sup>262</sup> Nonetheless, the grant of a temporary injunction certainly worked a very real and likely unexpected hardship upon both Botticella and Hostess.<sup>263</sup> Bimbo was not concerned with what Botticella's next, if any, employment move would be once he resigned until they apprehended that he was valuable to

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255. See *id.* at 119 (determining the public interest in the matter).

256. See *id.* (discussing the competing interests between employers and employees).

257. See *Bimbo Bakeries*, 613 F.3d at 110-11 (applying the inevitable disclosure doctrine as required by Pennsylvania law).

258. See *id.* (applying the inevitable disclosure doctrine).

259. See *IBM*, 2008 U.S. Dist. LEXIS 95516, at \*29 (acknowledging that breach of the non-competition agreement would irreparably harm IBM).

260. See *Bimbo Bakeries*, 613 F.3d at 116-17 (upholding the district court's application of the disclosure standard).

261. See *PepsiCo*, 54 F.3d at 1267 (emphasizing employee's lack of forthrightness).

262. See *Bimbo Bakeries*, 613 F.3d at 108 (explaining defendant's justification for downloading company files).

263. See *id.* at 118-19 (noting the seriousness of an injunction).

a perceived competitor.<sup>264</sup> There has been no further news with respect to Botticella's employment, but Hostess is reportedly "trying to lose the fat" by seeking bankruptcy protection.<sup>265</sup>

*C. Aspect Software, Inc. v. Barnett – Federal District Court in Massachusetts Applying Massachusetts Law*

In this next case, another high-level tech executive, like in *IBM*, departed the east coast for California to start an exciting opportunity in a similar field with more pay and responsibility.<sup>266</sup> The outcome was the same, yet worse, because despite a hygiene agreement and careful planning, the *Aspect Software, Inc. v. Barnett* court found that the former employer carried its burden of establishing irreparable harm based on the doctrine of inevitable disclosure.<sup>267</sup> Failing to make an effort to distinguish non-protectable knowledge from protectable trade secrets, the court wrote, "it is difficult to conceive how all of the information stored in [Barnett's] memory can be set aside as he applies himself to a" new job.<sup>268</sup> In this case, the federal district court in Massachusetts exercised diversity jurisdiction, prevented a former Vice President of the technology company from starting the new job since "Aspect... carried its burden of establishing a significant risk of irreparable harm absent preliminary injunction relief."<sup>269</sup> Barnett signed an employment agreement with Aspect with non-compete and non-solicitation provisions as well as an acknowledgment that his employment included access to trade secrets that would irreparably harm his employer if he went to work for a competitor within one year of

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264. See *id.* at 106 (indicating the lack of a record of the supervisor asking the employee about his future employment plans).

265. See Mae Anderson & Michelle Chapman, *Twinkies Maker Hostess Seeks Bankruptcy Protection*, BOSTON GLOBE, Jan. 12, 2012, archived at <http://www.webcitation.org/66U3pEASc> (describing Hostess' plans to file for bankruptcy).

266. See *Aspect Software*, 787 F. Supp. 2d at 123-25 (describing the conditions of the defendants job movements).

267. See *id.* at 131 (granting Plaintiff's motion for a preliminary injunction).

268. *Id.* at 130.

269. *Id.* at 130-31.

his termination of employment at Aspect.<sup>270</sup> The agreement included a choice of law clause providing that Massachusetts law governs.<sup>271</sup> Since the issue of what law applied would be outcome determinative, the parties disputed the choice of law.<sup>272</sup> The court noted that the choice of law rules that apply in diversity actions are the rules of the forum state and that Massachusetts generally honors the parties' choice of law; thus Massachusetts law applied.<sup>273</sup>

Barnett also signed an agreement with his new employer, Avaya, outlining protections for Avaya that were similar to those he had signed with Aspect, and the provisions specifically noted that Barnett was not to retain any Aspect documents nor use Aspect's trade secrets in his work at Avaya.<sup>274</sup> The Avaya agreement regarding intellectual property included a prohibition on Barnett communicating with Aspect employees or customers, etc., or hiring Aspect employees for a period of one year from the start of Barnett's employment.<sup>275</sup> When Barnett started at Avaya in California, Aspect promptly sought relief in a Massachusetts state court.<sup>276</sup> Barnett removed the action to federal district court in Massachusetts where the substantive law of Massachusetts governed.<sup>277</sup>

The case involved a breach of contract claim, focusing on the section of the agreement prohibiting Barnett from "participat[ing] in any business in which he would be reasonably

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270. *See id.* at 122-23 (explaining that the employee signed a non-compete agreement).

271. *See id.* (indicating that the agreement required that all issues and questions concerning the agreement would be governed by Massachusetts law).

272. *See Aspect Software*, 787 F. Supp. 2d. at 125 (recognizing that Massachusetts courts refuse to honor choice of law provisions if they are against policy).

273. *See id.* (accepting that Massachusetts courts give effect to choice of law clauses).

274. *See id.* at 124 (showing that the non-competition agreement limited disclosure and document retention).

275. *See id.* (reciting the terms of Avaya's employee agreement with Barnett).

276. *See id.* at 125 (noting the filing history).

277. *See id.* (taking note of Barnett's removal to federal court).

likely to employ, reveal or otherwise utilize trade secrets.”<sup>278</sup> In the district court’s view, Aspect established that it was reasonably likely that Barnett would employ, reveal or use Aspect’s trade secrets in the course of his work with Avaya such that he breached the agreement.<sup>279</sup> In light of Barnett’s knowledge of confidential information and the similarity of the projected position at a directly competing company, the inevitability of disclosure seemed reasonably likely, and the likelihood of irreparable harm to Aspect was established despite Barnett’s agreement with Avaya that was designed to eliminate this risk.<sup>280</sup> It was difficult for the court to imagine that Mr. Barnett would ignore the information that he had in his memory when working in the same type of job at the same type of company, though knowledge, skills and experience are not protectable as trade secrets.<sup>281</sup> The court ruled that the balance of hardships favored granting the preliminary injunction, as did Massachusetts’ “clear public policy in favor of strong protections for trade secrets.”<sup>282</sup>

Barnett filed a motion requesting the court to amend the preliminary injunction, arguing that the language was too vague regarding the restrictions on his work placing him in danger of “unwitting contempt.”<sup>283</sup> The court denied his motion.<sup>284</sup> That Barnett was reasonably likely to use or disclose Aspect’s trade secrets in the course of his work with Avaya was sufficient to establish a breach of his non-competition agreement despite Barnett’s later agreement with Avaya not to disclose or use any of Aspect’s confidential business information.<sup>285</sup> The federal

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278. *Aspect Software*, 787 F. Supp. 2d. at 128.

279. *See id.* at 129 (recognizing the district court’s take on the agreement between Avaya and Barnett). The district court dismissed Barnett’s claim that the language “reasonably likely” was vague or ambiguous. *See id.*

280. *See id.* at 130 (explaining the trigger for a finding of irreparable harm).

281. *See id.* at 129 (considering whether it was “reasonably likely” that Barnett would disclose trade secrets).

282. *Id.* at 131.

283. *See id.* at 133-34 (evaluating Barnett’s argument).

284. *See Aspect Software*, 787 F. Supp. 2d. at 134-35 (denying motion to amend the preliminary injunction).

285. *See id.* at 129-30 (noting that the trade secret provisions in Barnett’s

district court in Massachusetts noted that the current state of Massachusetts law includes a general rule that a breach of non-compete agreements tied to trade secrets concerns triggers a finding of significant risk of irreparable harm absent issuance of a preliminary injunction.<sup>286</sup> Thus the court presumes that there is danger of irreparable harm if there is a non-compete and acceptance of a competitor's job.<sup>287</sup> Such a policy goes too far.<sup>288</sup>

There was no evidence in the record that Barnett was going to breach both his former and present employers' agreements.<sup>289</sup> In contrast to Botticella in the *Bimbo* case, upon his resignation, Barnett immediately turned off his Aspect-owned Blackberry, left his laptop at the company, and boxed all Aspect property then at his home and arranged for an Aspect representative to pick it up.<sup>290</sup> Barnett had served as the face of Aspect, and continued to respect its integrity.<sup>291</sup> He was the President and CEO of Aspect Communications when it was acquired by Concerto Software and the two companies morphed into Aspect Software in 2005.<sup>292</sup> It was at that time that Barnett signed the non-compete agreement that prevented him from competing for twelve months after leaving Aspect and agreed to

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contract with Avaya could not be enforced by Aspect).

286. See *id.* at 130 (stating relevant Massachusetts case law). The court rejected Barnett's argument that the doctrine of inevitable disclosure was on its way out, noting that this was not the law in Massachusetts. See *id.* at 130 n.11.

287. See *id.* at 131 (noting Massachusetts policy concerns in favor of strong trade secret protection).

288. See Editorial, *Massachusetts should ease up protecting 'noncompete' clauses*, BOSTON GLOBE, Oct. 30, 2011, archived at <http://www.webcitation.org/66V7I5I49> (noting that specialized skilled workers cannot pick up a new job after leaving an old one and that "[i]t isn't just the mild California weather that draws graduates of top Massachusetts universities" in that California law generally does not enforce non-compete agreements).

289. See *Aspect Software*, 787 F. Supp. 2d at 129 (explaining that the reasonable likelihood, not actual intent, of disclosing trade secrets is sufficient to establish a breach of contract claim).

290. See *id.* at 123-24 (noting precautions taken by Barnett and Avaya to protect Aspect's trade secrets).

291. See *id.* at 121-22 (describing Barnett's level of responsibility at Aspect).

292. See *id.* (summarizing Barnett's history with Aspect).

settle disputes using Massachusetts law.<sup>293</sup> After five years working at the combined entity, Barnett was ready for a change.<sup>294</sup> On April 18, 2011 Barnett informed Aspect of the offer from Avaya and that he planned to go to work for them at which time he resigned.<sup>295</sup> On April 21, the President of Avaya sent Barnett a list of ground rules to protect both companies.<sup>296</sup> Avaya and Barnett were both concerned with keeping Aspect's business and secrets with Aspect while allowing Barnett to move on to a new opportunity.<sup>297</sup> On April 21, Barnett relocated to San Jose, California.<sup>298</sup>

On April 27, Aspect filed suit in a Massachusetts court to enforce the non-compete agreement—an agreement that is per se void under California law—the locus of Avaya and Barnett.<sup>299</sup> Thus, choice of law question determined the outcome in Aspect's favor.<sup>300</sup> It is notable that Barnett offered to submit periodic affidavits declaring his compliance with the confidentiality and trade secret provisions in his agreement with Aspect.<sup>301</sup> Yet the

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293. *See id.* at 122 (quoting the non-compete provision in Barnett's employment agreement).

294. *See id.* at 123 (describing Avaya's offer to Barnett).

295. *See Aspect Software*, 787 F. Supp. 2d at 123 (reviewing Barnett's acceptance of Avaya's offer and subsequent resignation from Aspect).

296. *See id.* at 124-25 (quoting the "ground rules," including the forbidding of contact with any former customers or Aspect employees, and retention of any Aspect documents).

297. *See id.* at 123-24 (listing precautions taken by Barnett and Avaya to prevent disclosure of Aspect trade secrets).

298. *See id.* at 125 (noting the close timing between Barnett's resignation, moving, and start of employment at Avaya).

299. *See id.* (providing procedural history).

300. *See id.* at 125-28 (finding for the plaintiff because the defendant breached Massachusetts contract law.) The court noted that absent the choice of law provision, in a diversity suit, the court would have weighed factors from the Restatement (Second) of Conflict of Laws §6(2)(d) (1971). *See id.* at 127. The agreement between Barnett and Aspect Software was entered by a Tennessee resident with a Massachusetts firm and Barnett's duties were split between the two states, and even though Barnett moved to California to work for Avaya, the factors did not suggest that the substantive law of California would govern rather than Massachusetts law. *See id.*

301. *See Aspect Software*, 787 F. Supp. 2d at 125 n.5 (stating Barnett's attempt to refute the doctrine of inevitable disclosure).

district court was not swayed by this offer and the injunction precluded Barnett's reemployment for twelve months and postponed his employment opportunity at Avaya, a position that he had moved his family to a new location to pursue.<sup>302</sup>

The court was unmoved by plaintiff's argument that the employment restrictions lacked specificity, thus placing him in danger of unwitting contempt.<sup>303</sup> The court noted that the language and its specificity or lack thereof originated in the employment agreement rather than the preliminary injunction.<sup>304</sup> It seemed that the court was simply enforcing the contract as written, unconcerned with its fairness or effect or the lack of bargaining power when it was signed.<sup>305</sup> It certainly would have been more equitable if the parties had compromised as in *IBM v. Papermaster* where, despite the existence of a non-compete agreement, the period restricting Papermaster's unemployment was shortened, and the risk of inevitable disclosure for IBM was narrowed with the use of quarterly declarations from Papermaster that he was not violating his agreement.<sup>306</sup> It is important to note that the federal district court in Massachusetts specifically rejected Barnett's argument that the "heyday of so-called 'inevitable disclosure' [jurisprudence] was in the mid-1990s to the early 2000s, and the tide has turned" as a description of the "current state of Massachusetts law."<sup>307</sup> Referencing three Massachusetts decisions that utilized the doctrine, the court confirmed its allegiance to protecting a company's confidential information,

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302. *See id.* at 125 (enjoining the defendant from working for a new employer). The court denied plaintiff's motion to amend the injunction. *See id.* at 134-35 (providing the memorandum and order denying the motion to amend).

303. *See id.* at 134 (noting that plaintiff did not move for an order of contempt).

304. *See id.* (attributing defendant's dissatisfaction to the employment agreement).

305. *See id.* at 128-30 (analyzing existence of the mechanical components of contract formation).

306. *See IBM*, 2008 U.S. Dist. LEXIS 95516, at \*37 (stating the court's findings).

307. *Aspect Software*, 787 F. Supp. 2d at 130-31, 130 n.11.



even when the departing employee and the new employer made “commendable efforts to protect the integrity of Aspect’s trade secrets.”<sup>308</sup>

*D. Degussa Admixtures v. Burnett – Court of Appeals for the Sixth Circuit Applying Michigan Law*

Finally, a decision that arose in a different procedural posture than the other cases, highlights several policy reasons for abandoning the inevitable disclosure doctrine.<sup>309</sup> In the context of a defendant’s motion for attorney’s fees accumulated while defending a trade secret suit that was voluntarily dismissed with prejudice, the Court of Appeals for the Sixth Circuit upheld a federal district court’s decision to grant the motion and at the same time spoke to the state of Michigan’s failure to endorse the theory of inevitable disclosure.<sup>310</sup> Defendant Burnett worked as a salesman for plaintiff Degussa and had signed a confidentiality agreement but not a noncompetition agreement.<sup>311</sup> When Burnett left Degussa for a competitor, Sika Co., Degussa filed a complaint against Burnett and Sika, alleging that Burnett breached his confidentiality agreement and that Sika induced that breach in violation of the Michigan Uniform Trade Secrets Act (MUTSA).<sup>312</sup> When plaintiff made a business decision to withdraw its motion for an injunction, the district court applying Michigan law awarded the defendants their attorney’s fees.<sup>313</sup>

*Degussa* involved a choice of law question as to whether federal or state law governed.<sup>314</sup> The plaintiff asserted that the

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308. *Id.* at 130 (internal citations omitted).

309. *See Degussa Admixtures, Inc. v. Burnett*, 277 F. App’x 530, 535-36 (6th Cir. 2008) (supporting the competition that arises between industries when inevitable disclosure is not endorsed).

310. *See id.* at 531 (stating the holding). This decision was not approved for full-text publication. *See id.*

311. *See id.* (discussing the employer-employee relationship between the parties).

312. *See id.* (elaborating on the nature of the breach and complaint).

313. *See id.* at 531-32 (utilizing the Michigan Uniform Trade Secrets Act).

314. *See id.* at 532 (highlighting Degussa’s contention that federal law would govern over the state act).

fee provision of MUTSA was procedural in nature and thus inapplicable because the *Erie* doctrine requires that a federal court exercising diversity jurisdiction must apply state substantive law and federal procedural law.<sup>315</sup> The federal district court ruled that the plaintiff waived this argument by failing to raise it.<sup>316</sup> The Court of Appeals for the Sixth Circuit placed the waiver issue aside and determined that the state law rule regarding attorney's fees was a substantive rule under *Erie*, as MUTSA is a "specific statute that applies only to trade secret claims and that it is intended to encourage innovation, competition, and job mobility in the marketplace."<sup>317</sup> The plaintiffs relied on the doctrine of inevitable disclosure in the absence of proof that Burnett had disclosed or threatened to disclose Degussa's confidential information.<sup>318</sup>

The appellate court noted that the inevitable disclosure doctrine has not been endorsed in Michigan and that the state court has gone so far as to say that even if "the concept of 'threatened misappropriation' of trade secrets encompasses a concept of inevitable disclosure, that concept must not compromise the right of employees to change jobs."<sup>319</sup> Further, the court stated that even if a Michigan court recognized inevitable disclosure, Degussa would be obliged to establish "more than the existence of generalized trade secrets and [Sika's] employment of [Burnett] who has knowledge of trade secrets."<sup>320</sup> The appellate court further noted that plaintiff brought the action "in an attempt to slow the bleeding from [its own] self-inflicted wounds" referring to problems with product quality, employee

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315. See *Degussa*, 277 F. App'x at 532 (citing *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938)) (detailing plaintiff's argument).

316. See *id.* (giving district court's holding).

317. *Id.* at 533.

318. See *id.* at 534 (relying on inevitable disclosure where no direct proof existed).

319. *Id.* at 535 (citing *CMI Int'l, Inc. v. Internet Int'l Corp.*, 649 N.W.2d 808,813 (Mich. Ct. App. 2002)) (noting Michigan's rejection to endorse the theory of inevitable disclosure).

320. *Id.* (quoting *CMI Int'l*, 649 N.W.2d at 813) (applying the parties at issue to the findings of a Michigan state court decision).

retention and marketing shortcomings.<sup>321</sup> The court found Degussa's allegations against defendant insufficient, observing that plaintiff was hoping "to convert Burnett's confidentiality agreement into a noncompete agreement."<sup>322</sup> Michigan and other jurisdictions clearly are unwilling to allow scant allegations of trade secret loss to become actionable inevitable disclosure cases.<sup>323</sup>

*Degussa* represents an important beacon to jurisdictions considering whether to adopt the inevitable disclosure doctrine. In *Degussa*, as in *Bimbo Bakeries*, there was no non-compete agreement; rather there was merely a confidentiality agreement.<sup>324</sup> In the absence of the inevitable disclosure doctrine, employers may not reach forward and control departing employees with this theory that converts restrictive agreements into retroactive non-compete agreements.<sup>325</sup> The cases clearly reflect a range of inconsistencies in recognition of inevitable disclosure, and in those jurisdictions that do, what amounts to an actionable claim, and still, there are even vast differences in remedies.<sup>326</sup> Nothing is predictable in these cases,

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321. See *Degussa*, 277 F. App'x at 535 (stating reasons the plaintiff filed the action).

322. See *id.* at 535 (suggesting the plaintiff's ulterior motives for bringing suit).

323. See *id.* (outlining the reasoning for denying plaintiff's claim under inevitable disclosure per Michigan law). In a recent case from a federal district court in California, *Ikon Office Solutions, Inc. v. Rezente*, the court outlined its take on causes of action ranging from misappropriation of trade secrets, interference with prospective economic relations, breach of duty of loyalty and fiduciary duty, and unfair competition under California law. *Ikon Office Solutions, Inc. v. Rezente*, No. 2:10-1704 WBS KJM, 2010 U.S. Dist. LEXIS 134757, at \*2-16 (E.D. Cal. Dec. 9, 2010). The court made clear that misappropriation of a trade secret requires a showing of actual misappropriation and that the state statute, CUTSA, provides an exclusive remedy for the conduct encompassed by the statute. See *id.* at \*19.

324. See *Degussa*, 277 F. App'x at 531, 535 (discussing implications of having merely a confidentiality agreement); *Bimbo Bakeries*, 613 F.3d at 105 (describing confidentiality agreement signed).

325. See *Degussa*, 277 F. App'x at 535 (suggesting Degussa's motivation was to control departing employees due to their own poor sales and product quality).

326. See *id.* at 536 (holding that Degussa's appeal regarding the inevitable

except for the costs associated with litigation including the financial and professional toll on departing employees.<sup>327</sup> The former employers win even if they do not prevail in court for the costs and effects to employees defending these cases are incredibly high.<sup>328</sup> The new employers are also impacted, since their new hire is benched until further notice, necessitating a new strategy for them as well, maybe even a replacement hire –and further, they may be a co-defendant in this litigation.<sup>329</sup> The cases also illustrate the innovation and talent gaps that are opening: the *Aspect* case makes Massachusetts a much less attractive residence for master innovators than California or Michigan where employees are not so constrained from job mobility.<sup>330</sup> Jurisdictions that apply the doctrine of inevitable disclosure are rubber stamping an employer's position that there is danger of trade secrets being leaked even in the absence of real proof; they are, in a sense, allowing a presumption of misappropriation and irreparable harm and enjoining employees from working without a satisfactory factual showing, creating a total constraint on employment when much less restrictive methods could achieve the employer's legitimate goals.<sup>331</sup>

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disclosure doctrine was not frivolous); *Bimbo Bakeries*, 613 F.3d at 118-19 (applying inevitable disclosure doctrine to find that harm of trade secret disclosure outweighed harm of employee not being able to work for competitor).

327. See *Degussa*, 277 F. App'x at 531-32 (highlighting a claim for attorney's fees); *Bimbo Bakeries*, 613 F.3d at 118 (exemplifying professional toll on departing employees where court temporarily restricted senior executive from working for competitor).

328. See *Degussa*, 277 F. App'x at 531 (remarking on the disparity of the impact of litigation on individuals as compared to corporations).

329. See *Bimbo Bakeries*, 613 F.3d at 118-19 (noting senior executive could not begin new employment for at least eleven weeks).

330. Compare *Aspect Software*, 787 F. Supp. 2d at 126 (favoring protection of trade secrets rather than employee's freedom to work where he chooses), with *Silguero*, 187 Cal. App. 4th at 62 (exemplifying California's consistency in favoring open competition and employee mobility).

331. See, e.g., *Degussa*, 277 F. App'x at 534-36 (discussing theory of inevitable disclosure and trade secrets); *Bimbo Bakeries*, 613 F.3d at 110 (analyzing inevitable disclosure in employment context).

#### IV. The Developing Gaps: Opportunity, Competitiveness and Innovation

##### A. Introduction

The point of trade secret law is the encouragement of innovation and invention.<sup>332</sup> Trade secret law fundamentally supports research and development, and thus is associated with increased economic efficiency.<sup>333</sup> The legal framework for trade secrets simultaneously establishes incentives to innovate by providing a legal mechanism to capture the benefits of the work, while tending to suppress information from the public.<sup>334</sup> The assets protected by trade secrets, especially in the tech industry, are ever more intangible<sup>335</sup> and difficult to secure while employees are ever more mobile, at-will, without ties and more-than-ready to catch the next break.<sup>336</sup> And to the extent jurisdictions vary on their acceptance of this doctrine (those that do cannot even agree on a standard), forum shopping and more become the norm, all combine to raise risks for litigants to unacceptably high levels.<sup>337</sup> Trade secret protection, careers and innovation are all on the line.<sup>338</sup> This is the perfect storm in which to see gaps developing in opportunity, competitiveness and innovation, and ask what could be done to better control risk

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332. See *Kewanee Oil*, 416 U.S. at 482 (citing the Pennsylvania Supreme Court's notation of the importance of trade secret protection).

333. See *id.* (setting forth the connection between trade secret protection and the subsidization of research and development and economic efficiency).

334. See THOMAS, *supra* note 52, at 1 (explaining the role of trade secrets in ensuring innovation in the United States).

335. See Leonard I. Nakamura, *Intangible Assets and National Income Accounting* 3 (Fed. Res. Bank of Phila., Working Paper No. 08-23, 2008) archived at <http://www.webcitation.org/66WrjWCuo> (pointing out the vast changes to the U.S. economy since 1960 with mass production and tangible investment becoming less important relative to intangible service products and investment).

336. See Almeling, *supra* note 53, at 93 (discussing the changes in the typical work environment).

337. See Schaller, *supra* note 126, at 780-81 (addressing the difficulties faced by courts particularly with regard to venue disputes).

338. See Almeling, *supra* note 53, at 93-94 (enumerating the various parties and interests involved in trade secret disputes).

and align interests. Overbroad construction of trade secret law and ID theory negatively impacts employees and denies to the public the full benefits of innovations.<sup>339</sup> What should the standard be for this theory, if at all?

*B. The Decision of Whether to Recognize or Repudiate the  
Inevitable Disclosure Doctrine*

In many ways, we are at a critical juncture on this issue. The novelty of *PepsiCo* is gone, and due to considerable changes both in the content and composition of work and workforce, how should judges decide plaintiffs' motions for equitable relief?<sup>340</sup> Without advocating for a complete abrogation of this doctrine, we do suggest that certain factors consistently emerge in these cases that deserve consideration in the decision making process. In our free-market system, most employees are at-will, without defined benefit plans, reliant instead merely on portable personal retirement accounts, and therefore without any meaningful stake or sense of job investment and security.<sup>341</sup> Though they are at-will, they may have signed non-compete and other such agreements, that may or may not be void, and the inevitable disclosure doctrine is an attempt to cover that risk, as it effectively becomes a de facto post-employment covenant not to compete.<sup>342</sup> Courts should not read into at-will employment relationships terms that employees did not agree to. Companies are trying to stay ahead of competition, market demands, and a host of other variables as they entrust their assets to these self-same employees.<sup>343</sup> And then the super-talented employee

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339. See Koh, *supra* note 106, at 308 n.208 (noting that employees are hurt by the uncertain status of trade secret law).

340. See Almeling, *supra* note 53, at 93 (providing that the changing work environment is responsible for the rise in trade secret litigation).

341. See *At-Will Employment Lawyers*, LEGALMATCH, archived at <http://www.webcitation.org/66csuq4Tl> (defining at will employment highlighting that they have the right to freely quit their jobs at any time).

342. See *EarthWeb*, 71 F. Supp. 2d at 309 (noting that cases have prohibited employees from working for competitors even when there is not a non-compete agreement).

343. See Taylor, *supra* note 39, at 487 (explaining that employers desire to keep their employees because they gain valuable information important when

departs, and worse, to a competitor. Companies sense that they cannot capitalize on innovations because of this risk of inevitable disclosure and loss of these trade secrets to competitors.<sup>344</sup> Yet to the extent the doctrine is imposed *ex post facto* (in essence a term or condition of employment not agreed to at the outset), employees find out after their departure that they are not able to capitalize on their education and experience to compete for the best jobs at the top wages.<sup>345</sup> And employers maintain the status quo.<sup>346</sup>

Yet what happens when California (and other like jurisdictions) refuses to recognize the inevitable disclosure theory: could California's stance be a major contributing reason for Silicon Valley's wildly successful start-up culture?<sup>347</sup> Put another way: if you were a super-talented worker, where would you likely begin your career: California, which promotes employee mobility—or an inevitable disclosure jurisdiction, which are protective of employer claims?<sup>348</sup> Whether to recognize or repudiate this doctrine can at times be a close call, but in many instances, there is an aspect to the doctrine more like a sword against employees than a shield to protect employers.<sup>349</sup> The stakes are ever higher in such sectors as technology where

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considering the speed of innovation in the high tech industry).

344. See Taylor, *supra* note 39, at 487 (addressing the loss that previous employers face when employees leave and retain valuable knowledge that can be used in their subsequent employment).

345. See Stewart, *supra* note 87, at 663 (stating that given their experience, employees should not be limited when seeking to change positions).

346. See Stewart, *supra* note 87, at 663 (suggesting that the inevitable disclosure doctrine favors employers in maintaining their workplace environment while limiting employees).

347. See *Whyte*, 125 Cal. Rptr at 281 (proclaiming that the court rejects the inevitable disclosure doctrine).

348. See *id.* (rejecting the inevitable disclosure theory and protecting employees).

349. See *id.* (stating that the inevitable disclosure doctrine creates a covenant not to compete after the fact and restricts employee mobility, therefore making it contrary to public policy).

innovation is the driver, and trade secrets and job mobility are so common.<sup>350</sup>

*C. The Lack of Judicial Standards and Predictability as to the  
Meaning of 'Inevitable' is Especially Detrimental to Departing  
Employees*

The case rulings are ostensibly based on the highest of probabilities: *that the misappropriation of trade secrets is inevitable*—yet is this really so?<sup>351</sup> There is such little evidence to work with at the pre-trial stage of litigation.<sup>352</sup> Judges are working from bare assertions of trade secrets that are more or less cloaked in protective orders, and reliant mainly on employers' assertions of what it is that employees are going to inevitably disclose.<sup>353</sup> The full record has not been developed (nor is it likely that the facts will be developed since the vast majority of such cases settle) because inevitable disclosure is first raised on a pre-trial motion.<sup>354</sup> This issue is further exacerbated by the fact that sorting through what is proprietary/protectable, and what is not, is especially difficult.<sup>355</sup> The records are replete with recitations of employers' valuable trade secrets, yet there is remarkably little time spent identifying, discerning, and distinguishing the protectable from the unprotectable information.<sup>356</sup> "In a technology-based company, the gray area between the general knowledge of the employee and the

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350. See Taylor, *supra* note 39, at 486 (describing how creativity and technical know how are the driving force behind innovation, which is difficult to generate when job mobility is greater now than ever).

351. See *supra* Part III (discussing the inevitable disclosure cases).

352. See Schaller, *supra* note 126, at 809 (describing the issues that arise with premature motions).

353. See Schaller, *supra* note 126, at 739-40 (describing the timing of the pleadings and the importance of the content therein).

354. See Schaller, *supra* note 127, at 843-44 (explaining the employer's instinct to file a preliminary injunction, even if the case ultimately settles before trial).

355. See Saunders, *supra* note 71, at 218 (remarking on the challenge of separating protectable information from unprotectable information).

356. See Carey, *supra* note 54, at 141 (showing the varying interpretation of trade secret law used by courts).



proprietary information gained in the workplace is expansive.”<sup>357</sup> The facts involve an overlay of sensitive business information and trade secrets, and therefore require close scrutiny since they are inherently close cases.<sup>358</sup> Because of this, these cases are not suitable for disposition on a pre-trial motion.<sup>359</sup>

Further, there are surprising differences among those jurisdictions that recognize the doctrine.<sup>360</sup> “[T]he degree of probability required for a showing of inevitability remains a source of confusion among the courts.”<sup>361</sup> One judge complained that he was grappling with this “nebulous standard of inevitability.”<sup>362</sup> For example, a Massachusetts court wrote that plaintiff, “Aspect has established that at the time of his departure from Aspect it was at the very least ‘reasonably likely’ that he would [inevitably disclose Aspect’s trade secrets].”<sup>363</sup> In a Michigan case, the court wrote, plaintiff must, “convince the court of the former employee’s ‘duplicity’ by proffering evidence indicating a significant lack of candor or willingness to misuse trade secrets.”<sup>364</sup> The same federal district court in New York as *Papermaster* faced a similar issue, but with a different judge who arrived at a different conclusion than did the *Papermaster* judge.<sup>365</sup> He required a “clear showing of actual and imminent irreparable harm.”<sup>366</sup> He also pointed out the lack of an agreement for this restriction; the anticompetitive nature of the

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357. Carey, *supra* note 54, at 141.

358. See Carey, *supra* note 54, at 146-47 (explaining how changes in the technology market may require courts to use closer scrutiny in future decisions).

359. See Carey, *supra* note 54, at 146-47 (implying that these technology cases are more complicated than other trade secret cases).

360. See Godfrey, *supra* note 120, at 174 (considering the range of opinions between courts when ruling on inevitability).

361. Godfrey, *supra* note 120, at 174.

362. See *Earthweb*, 71 F. Supp. 2d at 311 (articulating the hardship courts experience with in construing inevitability).

363. *Aspect Software*, 787 F. Supp. 2d at 129.

364. *Gene Codes Corp. v. Thomson*, No. 09-14687, 2011 U.S. Dist. LEXIS 14039, at \*13 (E.D. Mich. Feb. 11, 2011).

365. See *American Airlines, Inc. v. Imhof*, 620 F. Supp. 2d 574, 587 (S.D.N.Y. 2009) (exhibiting a ruling that differs from *Papermaster*).

366. *Id.* at 582.

restriction, and the lack of any test for reasonableness that even non-compete agreements are subject to.<sup>367</sup> Without a definitive standard, as to factors, or as to the measure of probability implied into the concept of ‘inevitable,’ rulings on inevitable disclosure should be further scrutinized at the appellate level, except for the fact that the parties are so asymmetrically placed that the cases usually do not make it to trial.<sup>368</sup> Finally, courts point to the presence of non-compete and non-disclosure agreements and their boilerplate language as evidence of irreparable harm.<sup>369</sup> Yet the agreements are anything but. This leads to an undesirable result in that courts that have adopted the doctrine, thereby risking an overprotection of employers’ trade secrets at the expense of employee mobility. In sectors such as the tech industry, whose lifeblood is innovation, the faster the innovation, the less a rationale exists for issuing an injunction because the rate of innovation is faster than the courts’ administration of the cases.<sup>370</sup>

Courts should deny requests for equitable relief absent *clear and convincing evidence* of the following when they consider the first factor in a motion, the likelihood of success at trial. First, plaintiffs must show evidence of actual trade secrets that are at risk by this departure; that these are demonstrably more than just information based on memory, knowledge, skills, and experience.<sup>371</sup> Plaintiffs should be prepared to show a defendant

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367. See *id.* (laying out the different considerations required for a decision in the instant case); Godfrey, *supra* note 120, at 174-76 nn.100-05 (detailing the variation in how courts assess probability of inevitability).

368. See *American Airlines*, 620 F. Supp. 2d at 587 (denying *American’s* preliminary injunction prevents trial and any further appellate review); Godfrey, *supra* note 120, at 178 (discussing the inconsistency in development of the inevitable disclosure doctrine).

369. See *American Airlines*, 620 F. Supp. 2d at 582 (inferring that if employers choose to have employees sign non-compete and non-disclosure agreements, there is an increased chance that irreparable harm to the employer will be found); Godfrey, *supra* note 120, at 177 (analyzing the theories of irreparable harm).

370. See *Saban v. Caremark Rx, LLC*, 780 F. Supp. 2d 700, 714 (N.D. Ill. 2011) (noting that information turns ‘stale’ as technology companies ‘evolve’).

371. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995) (stating that trade secrets do not encompass mere general skills, knowledge,

threatens to disclose or use these trade secrets on behalf of the new employer and they are highly technical or specialized, in contrast to trade secrets involving management data including sales and marketing plans.<sup>372</sup> Defendants should be able to contest the claims. By way of example, evidence of an employer's hiring agreement that expressly forbids the use of a former employer's trade secrets by an employee ought to be sufficient to overcome a plaintiff's assertions.<sup>373</sup> Finally, when the court evaluates the other three factors in a preliminary injunction motion, it is imperative to more closely scrutinize the potential for irreparable injury, the equities, and the public interest. Irreparable injury to a large corporation by one employee's departure should not be so readily accepted by a court.<sup>374</sup> The question of equities is more difficult to answer: how can it be that a risk of injury is substantial enough, and thus fair, to put someone out of work, when it is not yet proven that there was an actionable injury? Who is proportionately more harmed by the court's decision? Likewise, the public's interest is, it turns out, better served by employee mobility with its associated knowledge sharing and spillover, than by a lock-up on information that occurs with an injunction in favor of plaintiffs.<sup>375</sup> Perhaps these cases are better suited for equitable relief in the form of a special master appointed by the court to

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training, or experience).

372. See *Almeling*, *supra* note 53, at 60, 91-93 (noting the impact of high technology to trade secret litigation and demonstrating how the prima facie case of trade secret causes of actions may have anywhere between two and six elements, depending on the state).

373. See *Bimbo Bakeries*, 613 F.3d at 106 (providing an example where an employer's hiring agreement expressly forbade the use of any trade secrets gained from a former employer).

374. See *PepsiCo*, 54 F.3d at 1267 n.3 (illustrating an instance where a court gave a corporation large deference to its irreparable injury argument); see also *Degussa*, 277 F. App'x at 535-36 (stating that the filing of a trade-secret action to "restrain legitimate competition and job mobility" is not proper).

375. See Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 575 (1999) (noting the innovation and successes due to knowledge spillover in high technology fields where courts do not enforce certain post-employment non-competition agreements).

oversee the employee's actions during the first six months with the new employer.

Finally, there are other related points worth mentioning. The asymmetry of the litigants is stark in two senses. First, because of the employee's departure for maybe a better opportunity aspect, these cases more resemble divorce proceedings than commercial litigation between companies.<sup>376</sup> Second, there is a large disparity of resources between the litigants and it is reflected in the results.<sup>377</sup> Plaintiffs have a repeat player advantage when seeking equitable relief.<sup>378</sup> Plaintiff companies are at the ready with established legal teams in place to file suits, knowing ahead of time how much will need to be revealed about trade secrets, where to file, and more; and for them, it is just another business expense.<sup>379</sup> The departing employees are typically caught unaware, and need to scramble to secure legal representation.<sup>380</sup> They probably have never defended themselves in such litigation, and bear the full non-expensable cost of their legal work, without the time or resources to fully devote to a vigorous defense of the charges, especially since it is likely a preliminary injunction will issue and this employee is now out of work in the only field that has the most use for that skill set.<sup>381</sup> Moreover, the new employer may even

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376. See, e.g., *Degussa*, 277 F. App'x at 531-32 (providing procedural overview of a contentious case that involved the plaintiff corporation withdrawing its preliminary injunction motion and the defendant's subsequent motion for attorney's fees due to "bad faith").

377. *Cherry v. Champion Int'l Corp.*, 186 F.3d 442, 445 (4th Cir. 1999) (explaining that calculations should be made because companies have much more resources).

378. *Armendariz v. Found. Health Psychcare Services, Inc.*, 6 P.3d 669, 687-88 (Cal. 2000) (remarking that there may be unfair bias towards employers because they are the source of business for the arbitrator).

379. See *id.* (noting that employers perform a cost benefit analysis to decide whether a lawsuit is economical).

380. See Duncan H. Adams, *Non-Competition Agreements, Provisions and Clauses in Georgia Business Contracts – When Are They Enforceable?*, ATLANTA BUSINESS LAWYER BLOG (Dec. 12, 2008), archived at <http://www.webcitation.org/66ejGZaaG> (recognizing that employees are often surprised when non-competition agreements are enforced).

381. *Cole v. Burns Int'l. Sec. Servs.*, 105 F.3d 1465, 1483-84 (D.C. Cir. 1997)

be joined as a defendant.<sup>382</sup> The uneven resources between plaintiffs and defendants are especially striking in these cases: plaintiffs are large profit-making entities with significant experience in this employment litigation, while defendants are first-time reluctant litigants without the wherewithal to truly vindicate their actions.<sup>383</sup> Such policies potentially are bad in any event, for the company's morale, retention and recruitment.<sup>384</sup> Overly broad recognition of inevitable disclosure negatively impacts employees and the general public to a greater extent than employers are impacted in jurisdictions that do not recognize the doctrine.<sup>385</sup> The inevitable disclosure doctrine favors the status quo over the future.

*D. A Major Effect of the Inevitable Disclosure Doctrine: A  
Developing Regional Innovation Gap Between the East and West  
Coasts*

Trade secret law promotes commercial standards and company prosperity, yet as with other intellectual property, the laws act as a restraint. There are negative impacts on employee mobility, bargaining power, opportunity, and knowledge sharing, and as such, the inevitable disclosure doctrine ultimately works to the detriment of further innovation.<sup>386</sup> It is crucial to

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(acknowledging that employees may be required to pay arbitration fees but they may be waived in the event of financial hardship).

382. See Suellen Lowry, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519, 531 (opining that new employers of technical employees may often join as defendants in trade secret litigation).

383. *Id.* at 530-31 (noting the expenses associated with trade secret litigation).

384. *Id.* at 531 (discussing the deterring effect of a trade secret lawsuit).

385. *Id.* at 519 (explaining that such restrictions impair employee's abilities to market their skills to new employers).

386. See THOMAS, *supra* note 52, at 4-5 (listing negative aspects of trade secret laws); see also Alan L. Durham, *Natural Laws and Inevitable Infringement*, 93 MINN. L. REV. 933, 984-85 (2009) (highlighting the controversy over the *PepsiCo* decision); Charles Tait Graves & James A. DiBoise, *Do Strict Trade Secret and Non-Competition Laws Obstruct Innovation?*, 1 ENTREPREN. BUS. L.J. 323, 327 (2006) (noting that venture capital and startup success is also prevalent in areas where non-competition agreements are

understand that there is a correlation between states' adoption of the inevitable disclosure theory and the business environment that is causing a number of collateral effects.<sup>387</sup> In recognition of this, Mark Chandler, Cisco's SVP, General Counsel and Secretary, wrote in his blog "[i]n Silicon Valley, human capital is as mobile as financial capital. Employees' freedom to find the best way to use their skills and advance their careers is a key factor that has driven the development of Silicon Valley."<sup>388</sup> Later, he followed up in a post titled, "Silicon Valley Innovation is Built Around Employee Mobility."<sup>389</sup> This could not be said as to any jurisdiction recognizing the inevitable disclosure doctrine.

A number of important research studies bear out the correlation between employee mobility, knowledge sharing, collaboration and innovation.<sup>390</sup> By way of example, scholars have examined differences between Silicon Valley, California, and

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legal); Catherine L. Fisk, *Knowledge Work: New Metaphors for the New Economy*, 80 CHI.-KENT L. REV. 839, 862-63 (2005) (proposing a "joint author" solution to the problem of trade secret protection).

387. See Carey, *supra* note 54, at 137-38 (noting the inherent tension between trade secret protection and free competition).

388. See Mark Chandler, *HP Sues Employees for Leaving - We Challenge HP to Support Employee Freedom*, CISCO BLOG > THE PLATFORM, Nov. 23, 2011, archived at <http://www.webcitation.org/66fk2WGP> (highlighting importance of employee freedom).

389. See Mark Chandler, *Silicon Valley Innovation is Built Around Employee Mobility*, Jan. 3, 2012, archived at <http://www.webcitation.org/66f4jsAi>.

390. See Marx et al., *supra* note 39, at 882 (comparing patenting rates after adoption of trade secret protections); Gilson, *supra* note 375, at 590-92 (noting how trade secret law affects growth of both small start-up companies and large firms); ANNALIE SAXENIAN, *REGIONAL ADVANTAGE: CULTURE AND COMPETITION IN SILICON VALLEY AND ROUTE 128* 1-6 (1994) (outlining the common origins of companies in Silicon Valley and Boston's Route 128 and their divergent paths); Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention* 10 (RAND Corp., Discussion Paper P-1856-RC, 1959), archived at <http://www.webcitation.org/66fNqXli> (noting personnel mobility spreads information); Yuval Feldman *Experimental Approach to the Study of Normative Failures: Divulging of Trade Secrets by Silicon Valley Employees*, 2003 U. ILL. J.L. TECH. & POL'Y 105, 105 (2003) (discussing that employee mobility and information diffusion between companies as the basis of the innovative environment and success of Silicon Valley); see e.g. FERRERA, *supra* note 23, at 314 (discussing employee mobility).

Route 128, Massachusetts for their origins as tech-industrial regional centers that were similar, but they have since diverged in their fortunes.<sup>391</sup> By 1990 Silicon Valley “pulled ahead of Boston’s Route 128 as the more successful innovation community.”<sup>392</sup> California’s Silicon Valley is now the leader in company formation, job creation, and as a source of exports, while Boston is a distant second.<sup>393</sup> Massachusetts vigorously enforces non-competes, recognizes inevitable disclosure and therefore favors larger, hierarchical companies, whereas the structure of innovation communities favors start-ups, open networks, speed, fluidity and experimentation.<sup>394</sup> Such qualities are mostly at odds with secretive, established companies that maintain boundaries along with a monopoly over local talent.<sup>395</sup>

The findings point to California’s ban on restrictive employment covenants and inevitable disclosure that sets the tone for a legal environment that rewards mobility and innovation.<sup>396</sup> Professor Saxenian observed that differences between the regions are not in because of the availability of resources or location but in culture; Silicon Valley companies were connected to professional networks which helped them navigate market turbulence.<sup>397</sup> In contrast, Route 128 firms were more isolated.<sup>398</sup> Professor Marx suggests “more startups appear

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391. See e.g., Graves & Diboise, *supra* note 386, at 326 (noting leading scholars’ views on the Silicon Valley / Route 128 distinction).

392. See Graves & Diboise, *supra* note 386, at 325.

393. See Vivek Wadhwa, *The Valley of My Dreams: Why Silicon Valley Left Boston’s Route 128 in the Dust*, TECHCRUNCH, Oct. 31, 2009, archived at <http://www.webcitation.org/66fpRAWsQ> (discussing that Silicon Valley’s open information exchange encouraged growth and innovation which spurred individuals to move to Silicon Valley as opposed to Boston).

394. See Gilson, *supra* note 375, at 589-90 (noting that the career paths of Silicon Valley engineers resembled “Brownian motion.”).

395. See Wadhwa, *supra* note 393 (contrasting the technological environments of Boston and Silicon Valley in regard to information flow ).

396. See Graves & Diboise, *supra* note 386, at 326 (finding that employee mobility leads to innovation).

397. See SAXENIAN, *supra* note 390, at 9 (highlighting Silicon Valley firms’ commercial advantages).

398. See SAXENIAN, *supra* note 390, at 9 (noting Route 128 firms generated generated technological breakthroughs but did not enjoy regional success).

in regions that do not enforce non-competes.”<sup>399</sup> Professor Gilson theorizes that knowledge spillovers from employee mobility are actually beneficial and this information-sharing spurs further innovation.<sup>400</sup> Moreover, this positively impacts the growth of venture-backed entrepreneurial companies, and associated regional advantages.<sup>401</sup> This stark California-Massachusetts example will continue to play out in each case in which there is a difference in law between states.<sup>402</sup> Consider Facebook founder Mark Zuckerberg’s comments during Startup School, an event co-sponsored by Y Combinator and Stanford University.<sup>403</sup> He responded to a query on why he left Cambridge for California to continue working on his startup, Facebook.<sup>404</sup> “I knew nothing, so I had to be out here. Facebook would not have worked had I stayed in Boston.”<sup>405</sup> The regional gap in innovation has widened, and Professor Marx concludes, “[u]ltimately... policy planners must decide when the interests of incumbent firms outweigh those of individual careers and possibly regional development.”<sup>406</sup> We add that judges have this same opportunity too, to weigh in on this during deliberations over whether a motion for a preliminary injunction should be granted, especially in light of evidence that the individual employee and the public may be more harmed, and there are more benefits that accrue from knowledge sharing, than previously thought.

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399. Marx et al., *supra* note 39, at 875.

400. See Gilson, *supra* note 375, at 619 (reaching a conclusion after a thorough discussion of “spilling over” tacit knowledge).

401. See Gilson, *supra* note 375, at 590 (contrasting Silicon Valley and Route 128’s business structures).

402. See Gilson, *supra* note 375, at 628 (suggesting the use of analysis based on type of industry involved).

403. See Jessica Guynn, *Zuckerberg: If I started Facebook today, I would stay in Boston*, L.A. TIMES, Oct. 31, 2011, archived at <http://www.webcitation.org/66g3aotpk> (noting Zuckerberg’s statement that he would have stayed in Boston).

404. See *id.* (noting Zuckerberg’s statements concerning the startup and development of Facebook).

405. See *id.*

406. Marx et al., *supra* note 39, at 888.



*E. Employee Mobility May Be Indicative of a More Productive Direction*

It is possible that the employee's new job at the new employer is actually pointing to the next trend, and maybe these employees are leading the way, anticipating in fact, the next wave of creative destruction unfolding.<sup>407</sup> It could be that this newer start-up, that could one day be a competitive threat, is actually a promising acquisition target to consider now.<sup>408</sup> There are a number of examples of employees departing companies only to end up working for them again.<sup>409</sup> Google has bought many such companies started by former employees.<sup>410</sup> Ultimately it is not in the interests of these former employers to overplay their hand and file suit on the theory of inevitable disclosure, for there could be valuable opportunities worth more than the imagined loss of trade secrets.<sup>411</sup> It behooves the former employer to think about the longer term, the bigger picture behind the departure and to consider why the employee left: maybe for more money, responsibility, opportunity?<sup>412</sup> Were the negatives at the former employers too high: the bureaucratic culture, lack of project funding, poor management?<sup>413</sup> Employee departures are most definitely painful, especially a high-level mid-career executive with a considerable degree of insight and experience who is representative of the company's cultural values.<sup>414</sup> Instead it is a

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407. See Liz Gannes, *Google Picks Up Another Former Employee's Startup: Picnik*, Mar. 1, 2010, archived at <http://www.webcitation.org/66g9c3Sv7> (observing the trends in the development of start up companies).

408. See *id.* (relaying the story of Google's acquisition of newly formed startup companies by former employees).

409. See *id.* (commenting on the success story of a former Google employee selling his startup back to Google).

410. See *id.* (recounting a number of companies purchased by Google, including AppJet, Aardvark, and reMail).

411. See *id.* (indicating the marketable and profitable success Google has had with their recent buys).

412. See *infra*. Part IV.F: Complementary strategies for managing trade secrets (explaining various theories to consider related to inevitable disclosure theory).

413. See *infra*. Part IV.F: Complementary strategies for managing trade secrets (discussing the recourse for employees departing).

414. See *infra*. Part IV.F: Complementary strategies for managing trade

moment to assess this range of issues that we have raised that truly need attention.<sup>415</sup>

#### *F. Complementary Strategies for Managing Trade Secrets*

There are additional theories and agreements for employers that hold more promise than the inevitable disclosure theory.<sup>416</sup> There are a couple of tort theories for consideration by employers as against departing employees.<sup>417</sup> First, employers may be able to assert a breach of the implied covenant of good faith and fair dealing.<sup>418</sup> The doctrine of good faith and fair dealing “concerns the manner in which existing contractual duties are performed.”<sup>419</sup> Second, employers may have recourse on the theory of breach of the fiduciary duty of loyalty.<sup>420</sup> A fiduciary relationship exists between principals and agents as a matter of law, and while that duty ends at when the employment relationship terminates, any existing restrictive covenants potentially create an ongoing duty.<sup>421</sup>

There are additional agreements that merit mention. First, forfeiture clauses, also known as ‘clawbacks’ accomplish as much in the long run as any of the other agreements or tort

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secrets (expounding on the various duties of loyalty and fair dealing that come into play).

415. *See infra*. Part IV.F: Complementary strategies for managing trade secrets (reasoning through various doctrines that may play a part besides inevitable disclosure).

416. *See infra*. Part IV.F: Complementary strategies for managing trade secrets (listing the various theories of liability under consideration).

417. *See infra*. Part IV.F: Complementary strategies for managing trade secrets (indicating that the doctrine of good faith and fair dealing and duty of loyalty are other areas to consider).

418. *See Eigerman v. Putnam Invs., Inc.*, 877 N.E.2d 1258, 1265 (Mass. 2007) (discussing the doctrine of good faith and fair dealing in an employment context).

419. *Id.*

420. *See Centimark Corp. v. Vitek*, No. 08 C 7323, 2010 U.S. Dist. LEXIS 138302, at \*34-36 (N.D. Ill. Dec. 29, 2010) (dealing with a noncompete agreement with a high level employee where the employee resigned and joined the company’s direct competition).

421. *See id.* (discussing the basis for a breach of loyalty claim).

theories.<sup>422</sup> A forfeiture clause is part of an explicit employment agreement, in which employees forfeit certain, enumerated non-salary benefits (such as deferred compensation and stock-option benefits) when the employment relationship terminates.<sup>423</sup> The agreements essentially present employees with a choice to either receive the right to benefits or engage in competitive activities.<sup>424</sup> Some agreements provide that the benefits terminate regardless of whether the employee departs for a competitor.<sup>425</sup> These are recognized in every jurisdiction, and through these, employers lower the level of judicial scrutiny over these post-employment restrictive covenants since they neither require surrender of salary, nor leave employees unemployed and unemployable.<sup>426</sup> Second, garden leave clauses, which put departing employees on a paid leave of absence, are catching on as a strategy in the U.S.<sup>427</sup> Employees submit a certain date for their resignation, and thereafter stay home and 'tend to their gardens' and so refrain from work for an agreed upon duration.<sup>428</sup> Finally, there are

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422. See *Viad Corp. v. Houghton*, No. 08-CV-6706, 2010 U.S. Dist. LEXIS 61679, at \*15 (N.D. Ill. June 22, 2010) (articulating the impact of a forfeiture clause in the employment context).

423. See *id.* at \*15-16 (upholding forfeiture clause reasoning it is not an unreasonable restraint on competition). Some jurisdictions however, reason that since these agreements are inherently anticompetitive, they should be subject to a reasonable analysis. See Susan Powell, *Forfeiture-for-Competition Agreements ("Clawbacks"): An Alternative to Traditional Non-Competition Agreements?* 2010 WL 1137194, at 1, archived at <http://www.webcitation.org/678o0MULB>.

424. See Powell *supra* note 423, at 2 (discussing implications of clawback agreements).

425. See Powell *supra* note 423, at 2 (recognizing that an employer may require an employee to forfeit compensation if the employee "otherwise acts contrary to the employers interests").

426. See Daniel J. Raker, *A Lower Level of Scrutiny? New Alternatives for an Effective Restraint on Competitive Activity*, 39 LOY. U. CHI. L.J. 751, 753 (2008) (explaining how employers lower the level of judicial scrutiny by using "forfeiture-for-competition" in compensation arrangements).

427. See *id.* at 758-60 (providing an overview of the development of the "garden leave doctrine" in American courts).

428. See *id.* at 757 (defining the "garden leave" concept); Jeffrey S. Klein & Nichols J. Pappas, *'Garden Leave' Clauses in Lieu of Non-Competes*, 241 (No. 24) N.Y. L.J. (Feb. 5, 2009), archived at <http://www.webcitation.org/66hOnSJbp> (discussing "garden leave" clauses and their increasing frequency in the U.S.).

inter-company pacts called no-hire agreements (also known as no-poaching agreements), used between competitors to curb employees' job mobility.<sup>429</sup> While these are concededly effective to reduce trade secret loss (as well as compensation), it is a particularly risky strategy, especially in the tech sector as the U.S. Department of Justice reportedly opened a probe into this practice.<sup>430</sup> Targets of this probe include Adobe, Apple, Google, Genentech, IBM, Intel, Intuit, Microsoft, Disney's Pixar unit and Yahoo.<sup>431</sup> While freedom of contract is an important principle, due to the restrictive nature of no-hire agreements, courts closely scrutinize the contracts either with a non-compete type of reasonableness analysis, or with an antitrust analysis to determine whether the agreement is an unreasonable restraint on trade in violation of the antitrust laws.<sup>432</sup>

Possibly the single most effective strategy for maintaining trade secrets is to improve employee retention.<sup>433</sup> It is likely that

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429. See Thomas Catan & Brent Kendall, *U.S. Tech Probe Nears End*, WALL ST. J., Sept. 17, 2012, archived at <http://www.webcitation.org/66hPZqP1M> (noting large companies such as Google, Inc., Apple, Inc., and Intel Corp., attempted to avoid a court battle regarding collusion charges involving an agreement not to poach each others' employees).

430. See *id.* (reporting on the Department of Justice's involvement in no-hire agreement cases).

431. See *id.* (listing the companies that were the subject of the DOJ's probe).

432. See *Centimark Corp.*, 2010 U.S. Dist. LEXIS 138302, at \*21-25 (analyzing the no-hire agreement at issue); *Haines v. Verimed Healthcare Network, LLC*, 613 F. Supp. 2d 1133, 1136-39 (E.D. Mo. 2009) (discussing in depth both the federal and state antitrust claims); *VL Systems, Inc. v. Unisen, Inc.*, 61 Cal. Rptr. 3d 818, 826 (Cal. Ct. App. 2007) (applying a reasonableness analysis to hold that employer's broad provision is not necessary to protect its interests and is therefore unenforceable); see also Daniel J. O'Brien, *The Enforceability of No-Hire Provisions in Mergers, Acquisitions and Other Entrepreneurial Ventures*, 3 ENTREPREN. BUS. L.J. 113, \*115-16 (2008) (reviewing the competing approaches of no-hire agreements and restrictive covenants between employers and employees).

433. See Sheikh, *supra* note 30 (remarking that there is no guarantee that a non-disclosure agreement or a non-compete agreement will prevent an employee from disclosing confidential information); Elizabeth Rowe, *Trade Secrets, Data Security and Employees*, 84 CHI.-KENT L. REV. 749, 751-52 (2010) (exemplifying an instance in which a Kodak employee left the company and attempted to reveal proprietary information).

these departing employees will leave their new employer as well without immediate and vesting incentives.<sup>434</sup> Early phases of employment by talented individuals are characterized by short stints with each employer.<sup>435</sup> Retaining talented employees means ensuring loyalty so that they are incented to stay, to invest in the company and share in its growth long-term.<sup>436</sup> This may translate into a number of extra perks including employee stock ownership plans, and other benefits such as training, day care, tuitions, sabbaticals, and more.<sup>437</sup> It is clear that super-talented employees are a handful to manage since many of the qualities that make for a successful entrepreneur are at cross-purposes with company needs for organization, budgets, deadlines, and more.<sup>438</sup> These are issues companies need to grapple with for sure. One approach to managing this risk is to engage in a restructuring transaction to spin off the people and their ideas into a separate business unit. Employee mobility works to the detriment of trade secret protection, and prevention of attrition is undoubtedly the best strategy.

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434. See Sheikh, *supra* note 30 (cautioning that non-disclosure agreements cannot completely safeguard against unauthorized disclosure by a departing employee).

435. See Sheikh, *supra* note 30 (tracking the shift in employee loyalty in the last few decades). Sheikh characterizes the modern employee as products of modern employment practices; life-long employment with a single employer is no longer a guarantee, and as a result, employees are always seeking improved working conditions or higher pay. See Sheikh, *supra* note 30.

436. See Sheikh, *supra* note 30 (advocating for a system of rewards and benefits in order to maintain a high level of employee loyalty and retention).

437. See Sheikh, *supra* note 30 (suggesting that non-financial awards should be a factor in maintaining employee loyalty). Similarly, non-monetary incentives, like adequate vacation time and access to employee training programs, have a similar effect. See Sheikh, *supra* note 30.

438. See *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969, 974, 978 (N.D. Cal. 2006) (concerning talented employees who left the company when they were unhappy with progress on some ideas that were ultimately successful). See also Rowe, *supra* note 433, at 751-53 (providing examples of key employees disregarding any loyalty concerns and violating nondisclosure agreements).

## V. Conclusion

The inevitable disclosure doctrine has advanced beyond the scope it deserves. The cases illustrate the inequities caused by the grant of temporary restraining orders and preliminary injunctions absent clear and convincing evidence of the inevitable disclosure of trade secrets. Further, the inevitable disclosure doctrine is largely without standards or predictability, and it lacks consistency between jurisdictions. To the extent the doctrine is advanced, courts are enforcing post-employment restrictive covenants in contravention of the at-will free market system in the U.S labor economy. Talented employees in an innovation economy are in high demand and they are in many instances, the franchise, and the loss of such employees can have dire consequences. Businesses invoking the inevitable disclosure doctrine risk protecting the status quo at the expense of their future. Courts who agree with them risk protecting the status quo at the expense of that region's future. Employers should seek alternatives to filing suit on the inevitable disclosure theory, and courts can speed the process by more closely examining all of the factors in these motions for equitable relief, with an awareness of the asymmetries in these cases between companies and their departing employees. There is an inverse correlation between restrictions on job mobility—and a future of collaboration, innovation and knowledge sharing, which all ultimately work to the benefit employees, companies, and the public interest.