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The Doctrine of Inevitable Disclosure and its Inevitable Effect on Companies and People

Jules S. Brenner*

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I. Introduction

The doctrine of inevitable disclosure ("doctrine") is a relatively new intellectual property-related concept existing derivatively from and under the purview of traditional trade secret law. The doctrine holds that employees who possess knowledge of their current employer's trade secrets will "inevitably disclose" those trade secrets as a consequence of being hired for the same or similar job at a competitor of their current employer. The legal concern as a consequence of this "inevitable" disclosure is misappropriation of trade secrets and its accompanying revelation of economically valuable information to competitors. The Second Circuit has said, "[a] trade secret once lost is, of course, lost forever." The doctrine, as with all of intellectual property law, evidences the constant tension between public policy and economic incentive. The essence of that tension lies in the complex judicial and legislative soul-searching that seeks to balance the public policy ideal of expanding the intellectual knowledge and personal freedoms of the country against the equally pressing capitalistic ideal of encouraging and rewarding private economic investment made solely for proprietary gain.

This paper discusses the doctrine and its potential effects on companies and people in light of the potentially chilling effect of this new litigation tool. As stated by Edmund W. Kitch, "In the information age, rights in information are as important a component of the asset base of the successful corporation as are rights in tangible property." Part II of this Comment will explore the evolution of the doctrine and its current state of being by touching upon various public, private, and judicial implications of the doctrine. These implications are seen in the context of public policy (the physical and intellectual freedom of workers), the private rights of employers (to develop and protect proprietary knowledge designed solely for economic advantage), and the doctrine's practical application (the judicial outcomes that allow courts to impose ex post facto

2. See, e.g., PepsiCo v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995). PepsiCo is consistently cited as the case in which the doctrine of inevitable disclosure matured as a judicial tool. As discussed, infra, there are cases dating back as far as 1919 in which courts utilized the term "inevitable" in the context of a potential employee trade secret breach. In PepsiCo, the trial court fleshed-out the deeper implications of the doctrine and articulated the bases by which the present analytical and judicial framework of the doctrine has evolved.
4. See id. (quoting PepsiCo v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995) "[t]his tension is particularly exacerbated when a plaintiff sues to prevent not the actual misappropriation of trade secrets but the mere threat that it will occur."). See also Ian N. Feinberg, Inevitable Disclosure of Trade Secrets: A New Problem for Companies Hiring Experienced Technical Workers, available at http://www.gcwf.com/articles/interest/interest_5.html (last visited Sept. 23, 2001).
5. See, e.g., PepsiCo v. Redmond, 54 F.3d at 1268. Trade Secret law exists to "encourage invention and innovation" while at the same time protecting "the public interest in having free and open competition in the manufacture and sale of unpatented goods.
restrictive covenants on the speech, mobility, and the freedom to work of departing employees). Section A.1 of Part II will first review the model acts that serve as the bases for the evolution of the common law of trade secrets, and then Section A.2 will discuss the meaning of the doctrine in the context of its current use as an outgrowth of trade secret law.

The historical roots of the doctrine in Federal and State trade secret law will then be examined in Part II, Section B. This section will further review trade secret law and the relatively recent evolution of the doctrine. While the doctrine is generally acknowledged to have reached its modern expression in *PepsiCo v. Redmond*, the common-law roots of the doctrine can be found as early as 1919. In fact, however, the doctrine has always been implicit as an underlying premise of trade secret law from the most ancient days of commercial trade.

Part II, Section C, of this paper will review the current status of law related to the doctrine and will look at some key cases that are representative of its evolution and common-law application. Section C.1 will discuss *PepsiCo v. Redmond* and its significance as the archetype for contemporary application of the doctrine in a trade secret misappropriation case. Section C.2 will also examine other significant cases before and after *PepsiCo* that have played a role in the development of the doctrine.

The conclusion of Part II, Section D, entails an exploration of the doctrine in the context of the employer/employee relationship. This section again explores the implications of the doctrine inherent in the tensions between public policy and private rights.

7. See, e.g., Feinberg, supra note 4, at 2.
8. See *PepsiCo*, 54 F.3d at 1263.
9. See Susan Street Whaley, Comment, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. Cin. L. Rev. 809, 821 (1999). Whaley references *Eastman Kodak Co. v. Power Film Prods., Inc.*, 179 N.Y.S. 325 (4th Dept. 1919). In *Eastman Kodak*, the court upheld a non-compete covenant and, even while acknowledging that the employer had not established *per se* misappropriation of trade secrets, believed he would inevitably use the knowledge of his ex-employer to the benefit of his new employer. The court stated that “[t]he mere rendition of the services along the lines of his training would almost necessarily impart such knowledge to some degree. [The employee] cannot be loyal both to his promise to his former employer and to his new obligations to the defendant company.” See also Hamler, supra note 1, at 391; Christopher B. Wells, The “Inevitable Disclosure Doctrine” Now Ready for Use as the “Inevitable Injunction Tool”, available at http://www.lanepowell.com/news/insightsjan2000.htm; *Fountain v. Hudson Cush-N-Foam Corp.*, 122 So. 2d 232 (Fla. Dist. Ct. App. 1960). In *Fountain*, a temporary restraining order prohibiting the defendant from joining the plaintiff’s competitor was affirmed. The employee had signed an employment agreement inclusive of a one-year non-compete clause. Despite only the threat of disclosure of trade secrets, the court affirmed the injunction preventing the employee from joining the plaintiff’s competitor.
10. See A. Arthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corrupti*, 30 Colum. L. Rev. 837, 838–39 (1930). This article discusses misappropriation of slave labor in ancient Rome. In ancient Rome, slaves formed the largest group of employees. When the competitor of a slave owner (employer) enticed a slave (the employee) to reveal the employer’s secrets, the employer was entitled to legal action against the third-party who wrongfully induced the slave to reveal the trade secret. Double damages were awarded against the third party that had misappropriated the trade secret; penalties included any reduction in the value of the slave as well as any other harm to the employer.
11. See *PepsiCo v. Redmond*, 54 F.3d at 1262.
Specifically, this exploration will develop the issue from the perspectives of both employers and employees through an examination of key employment related documents, including non-compete agreements and non-disclosure agreements. These documents are the most tangible expressions of the limitations inherent in the relationship between employers and employees. Finally, this section begins to discuss the effect of the doctrine on the attitudes and approach of investors in technology companies, an industry that engenders an exceptional amount of employee mobility.

Part III of this Comment explores the potential financial implications of the doctrine on companies and people. The application of the doctrine has created both business uncertainties and judicial inconsistency, with the courts holding for and against the doctrine as well as employing parts of the doctrine. The ongoing evolution of the doctrine, its strategic and tactical use by aggressive high technology companies, and investors' ever-present fear of litigation will be examined as to its impact on the attitude of investors in risking substantial sums of money in start-up and emerging technology companies.

The final section of this Comment will touch upon selected worker related issues, including immigration issues, and the negative effects of the doctrine on the continued growth of the country's most dynamic economic sector, the technology industry in its myriad of forms.

12. See Jonathan Weil, Alcatel Unit is Quick to Sue Firms Hiring Its Employees, WALL ST. J., June 21, 2000, at T1, WL-WSJ 3033735.

13. See id.

14. See, e.g., Campbell Soup Co. v. Giles, 47 F.3d 467 (1st Cir. 1995) (rejecting the inevitable disclosure doctrine); Uncle B's Bakery v. O'Rourke, 920 F.Supp. 1405 (N.D. Iowa 1996) (holding that a former bagel plant manager could not work for competitors within a 500-mile radius); Novell Inc. v. Timpanogos Research Group, 46 U.S.P.Q.2d 1197 (D. Utah 1998) (limiting an employee from taking a new job for only nine months on the theory that his information about his prior employer would be “stale” by the end of that period).


16. The term “technology industry” in itself means nothing. The basic question of what constitutes a technology company is worthy of a Comment-length paper. For example, General Motors or Exxon are hugely technology driven whether it is in the manufacture of cars or the drilling for or refining of oil. These companies are not only consumers of technology but drivers of new technologies as well. The oil industry in particular has historically been a leading edge industry in the development and use of technology. For example, Texas Instruments in Dallas, one of the leading chip development and manufacturing companies in the world, started its corporate existence as Geophysical Services, Inc., providing geophysical (seismic) services to the oil industry. GM and Exxon, however, are not what are popularly considered to be “technology companies.” Texas Instruments, Intel, Cisco, Microsoft, and Oracle are technology companies in the common usage of the term. But even at that, the term is still misleading because it puts a homogeneous face on diverse and separate sectors that independently exist under the umbrella of “technology industry.” These diverse industry sectors include huge industries in themselves such as software (including development software, application software, and computer languages) desktop hardware and hand-held devices, telecommunications (including, for example, wired and wireless devices, fiber optics,
II. The Inevitable Disclosure Doctrine

A. DEFINING THE DOCTRINE

1. A Review of Trade Secrets and Uniform Acts

A trade secret is generally considered to be "something of value that is also secret." That "something of value" is not the absolute economic value of the trade secret to its owner, but rather the relative commercial value of the secret to a competitor of the owner. It is the responsibility and burden of the owner of information, considered to be a trade secret, to act and to cause others to act in a manner that evidences their belief that the information at issue is "something of value" and therefore must be kept "secret." Trade secrets, however, need not be kept absolutely confidential. The legally permissible level of disclosure of a trade secret by its holder is expressed in the Restatement (First) of Torts (1939) as follows:

"He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy . . . . Nevertheless, a substantial element of secrecy must exist, so that except by use of improper means, there would be difficulty in acquiring the information."

Thus the holder of a secret can disclose proprietary information, for purposes of furthering the "economic interests" of the holder, without having that information lose

and global positioning satellite (GPS) technologies, e-commerce applications and business process models, Internet-specific hardware and software infrastructure technologies, and technology services such as web-hosting and data mining, and other third-party business outsourcing. All of these industries comprise the popular notion of the "technology industry," and, while under some grand unification theory all technologies are interdependent, these various sectors have independent business and product development cycles and economic valuations.

17. Whaley, supra note 9, at 813 (citing the Restatement (Third) of Unfair Competition).
18. See id. at 814.
19. See id. (referencing Gale R. Peterson, TRADE SECRET PROTECTION IN AN INFORMATION AGE §2.1(B), at 2–9 & n.10 (1997)). Peterson points out that whether the actions of a given party are legally sufficient to prove misappropriation is always going to be fact dependent. The general factors that will be looked at by a court in determining whether the information was, in fact, treated as a "trade secret" include the following:

• Taking reasonable precautions against industrial espionage.
• Marking plans and documents as "confidential".
• Use of "confidentiality" legends, warnings, and agreements.
• Restricting visitors and similar types of plant security.
• Locking up or otherwise securing otherwise sensitive information.
• Taking technical precautions, such as dividing the system into steps handled by different individuals or departments.
• Copy protection and embedded codes to track copies.
• Employee exit interviews.

20. See Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 1200 (5th Cir. 1986).
21. Restatement (First) of Torts §757 cmt. b (1939).
its legal status as a trade secret.\textsuperscript{22} Misappropriation occurs, however, if a party discloses or uses another's trade secret without a privilege to do so.\textsuperscript{23}

Trade secrets are an essential part of the development of America's wealth of technology and intellectual property assets.\textsuperscript{24} Trade secret law is an amalgam of state law developed and adopted from uniform federal acts.\textsuperscript{25} Over the past fifty years, three different model federal acts have attempted to codify, for purposes of continuity in judicial application, the definition of "trade secret." These model codes are: The Restatement (First) of Torts §757, comment b, (1939),\textsuperscript{26} The Uniform Trade Secrets Act (1979),\textsuperscript{27} and the Restatement (Third) of Unfair Competition (1995).\textsuperscript{28} In addition to these common-law related acts, Congress enacted the Economic Espionage Act of 1996 to codify penalties for criminal misdeeds that lead to the appropriation of trade secrets by foreign governments.\textsuperscript{29} A review of each of these acts will help provide insight as to how various courts have reached their decisions in the trade secret cases discussed infra.

a. The Restatement (First) of Torts §757, comment b (1939)

Under the Restatement (First) of Torts:

"[o]ne who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if . . . his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him."\textsuperscript{30}

The term "trade secret" is defined in the First Restatement as consisting of any "formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. [I]t is not simply information as to single or ephemeral events in the conduct of the business. A trade secret is a process or device for continuous use in the operation of the business."\textsuperscript{31}

Beyond this basic definition, which creates only theoretical guidelines as to what may or may not be a trade secret, the Restatement reporters developed six factors to serve as guideposts in determining whether a trade secret, in fact, exists.\textsuperscript{32} These factors include the following: (1) the extent to which the information is known outside of the employer's business; (2) the extent to which the information in dispute is known by employees and others involved in the business; (3) the extent of measures taken by the employer to guard the secrecy of the information; (4) the value of the information to the employer and his competitors; (5) the amount of effort and money expended by the

\textsuperscript{22} See id.; see also Metallurgical Indus., Inc., supra note 20, at 1195.
\textsuperscript{23} See Hamler, supra note 1, at 383.
\textsuperscript{24} See Whaley, supra note 9, at 813.
\textsuperscript{25} See Restatement (First) of Torts §757 cmt. c (1939).
\textsuperscript{26} See Uniform Trade Secrets Act (1979).
\textsuperscript{28} See Restatement (Third) of Unfair Competition (1995).
\textsuperscript{29} See id.; see also Metallurgical Indus., Inc., supra note 20, at 1195.
\textsuperscript{30} See Hamler, supra note 1, at 383.
\textsuperscript{31} See Whaley, supra note 9, at 813.
\textsuperscript{32} See Restatement (First) of Torts §757 cmt. b (1939).
employer in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.\textsuperscript{33}

With the exception of the first inquiry, no other factor is per se dispositive of the question of whether something considered "secret" and "of value" has been adequately protected by its owner.\textsuperscript{34} The judicial inquiry as to whether trade secret protection is available thus engenders a "reasonable under the circumstances" type of analysis in which the diligence of the owner in creating and enforcing these protections becomes the requisite factual proof of the owner's belief in the information's "value" and need for "secrecy."\textsuperscript{35}

The Restatement's basic definition of trade secret, in conjunction with the application of these six inquiries, comprised the working definition for the courts of what constituted a trade secret from 1939 through 1979.\textsuperscript{36} The six factors developed by the reporters are still applied today even in jurisdictions where the Uniform Trade Secrets Act has been adopted.\textsuperscript{37}

b. The Uniform Trade Secrets Act

The Uniform Trade Secrets Act (UTSA) was published in 1979 after nearly ten years of effort\textsuperscript{38} and was "designed to codify basic principles of common-law trade secret protection."\textsuperscript{39} While the UTSA does not mention the theory of inevitable disclosure, it does provide for injunctive relief based on a threatened or actual misappropriation of a trade secret.\textsuperscript{40} The UTSA defines a "trade secret" as

information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.\textsuperscript{41}

The UTSA has been adopted by over forty states and is considered to have substantially expanded the scope and uniformity of what constituted both a trade secret and the law protecting those secrets.\textsuperscript{42}

Under the UTSA, liability is found when a trade secret is used or obtained by an "improper" means.\textsuperscript{43} The Restatement (Third), discussed infra, takes a similar

\textsuperscript{33.} Restatement (First) of Torts §757 cmt. b (1939); see also Hamler, supra note 1, at 386
\textsuperscript{34.} See Whaley, supra note 9, at 815.
\textsuperscript{35.} See id.
\textsuperscript{36.} See Hamler, supra note 1, at 386.
\textsuperscript{37.} See id.
\textsuperscript{38.} See id.
\textsuperscript{40.} See id.
\textsuperscript{41.} Unif. Trade Secrets Act §1(4) (1979).
\textsuperscript{42.} See Hamler, supra note 1, at 387; see also Whaley, supra note 9, at 812; and Kitch, supra note 6, at 659. Kitch notes that the sections of the Restatement related to trade secrets "provide timely evidence that the United States is in compliance with Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of the General Agreement on Tariffs and Trade (GATT)."
\textsuperscript{43.} See Whaley, supra note 9, at 815.
approach.\textsuperscript{44} According to Kitch, Article 39 of the Trade-Related Aspects of Intellectual Property Rights of the General Agreement of Tariffs and Trade “provide[s] legal protection for undisclosed information of private parties when disclosed or used contrary to ‘honest commercial practices’.”\textsuperscript{45} The implication of this approach is that trade secret law embodies a standard of good faith and fair dealing between employee and employer.\textsuperscript{46} This implied standard of good faith and fair dealing, however, does not create an implied balance of power between these parties.\textsuperscript{47}

c. The Restatement (Third) of Unfair Competition

In 1995, the Restatement (Third) of Unfair Competition was drafted to provide further guidance in defining trade secrets.\textsuperscript{48} In this Restatement, trade secret is defined as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”\textsuperscript{49}

Comment b to Section 39 of the Restatement evidences the intent of the drafters to provide a definition of trade secrets consistent with that of the USTA.\textsuperscript{50} In contrast with the Restatement (First) of Torts, there are three main differences in the definition of “trade secret” between the UTSA and Restatement (Third) of Unfair Competition. These differences are that under the UTSA and Restatement (Third) of Unfair Competition (1) information does not have to be “in use”; (2) information can have “potential” value; and (3) any valuable information qualifies, even if related to a “single,” or “ephemeral” event.\textsuperscript{51} The Restatement (Third) of Unfair Competition appears to have evolved as a tightening of the broad-based definition of trade secret as promulgated by the UTSA.\textsuperscript{52}

\begin{itemize}
\item \textsuperscript{44} See id.
\item \textsuperscript{45} Kitch, \textit{supra} note 6, at 660.
\item \textsuperscript{46} See id.
\item \textsuperscript{47} The use by employers of employment-related agreements such as non-compete, non-disclosure, and non-circumvention agreements immediately places the employee in a substantially subservient intellectual and physical position to the employer. The employee is intellectually subservient because the employer now owns all of the employee's inventions and perhaps even ideas. The employee is physically subservient because the employee may find himself or herself prohibited from leaving their employment because of the threat of litigation should new employment be sought. The imposition of the doctrine of inevitable disclosure enabling employers to seek judicial remedies, even in the face of unenforceable employment contracts or, alternatively, in the absence of contracts, puts the employee in an even more tenuous position vis-à-vis his or her future mobility to seek other employment.
\item \textsuperscript{48} See Hamler, \textit{supra} note 1, at 387. See also Kitch, \textit{supra} note 6, at 666. Kitch points out that “The Restatement deals with remedies for particular breaches of confidence, but it does not deal with the contractual relationships which created those obligations of confidence in the first place.”
\item \textsuperscript{49} \textit{RESTATEMENT (THIRD) OF UNFAIR COMPETITION} §39 (1995).
\item \textsuperscript{50} See Hamler, \textit{supra} note 1, at 387.
\item \textsuperscript{51} Id. See also Kitch, \textit{supra} note 6, at 661.
\item \textsuperscript{52} See Hamler, \textit{supra} note 1, at 388; see also Kitch, \textit{supra} note 6, at 661. Kitch states that “the expansion of the meaning of the term trade secret in the Restatement of Unfair Competition follows the definition of trade secret in the Uniform Trade Secrets Act which has no such limitation.”
\end{itemize}
d. The Economic Espionage Act of 1996

The Economic Espionage Act of 1996 was passed to provide federally sanctioned criminal penalties for “economic espionage,” i.e., misappropriation of trade secrets that benefit a foreign government or its agents or instrumentalities. The statute also addresses the issue of federal criminal penalties for domestic acts of misappropriation. Section 1839 of the Act defines “trade secret” in the context of the criminal sanctions imposed under the Act as follows:

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.

The encompassing and intense nature of this language, and the evident desire by the Congress to deter misappropriation of trade secrets by imposing criminal penalties on offenders, sends a clear signal to employers that the federal government treats theft of this nature seriously. As a result, it is likely that civil suits filed in state court, in conjunction with the threat of possible criminal penalties in federal court, will likely only increase the amount of litigation related to trade secret misappropriation, and give rise to further expansion of the doctrine.

2. The Meaning of the Doctrine of Inevitable Disclosure

The doctrine of inevitable disclosure derives from trade secret law and goes to the essence of the tension between public policy that encourages commercial openness and private rights that protect proprietary economic interests. In PepsiCo, the Seventh Circuit stated:

[the question of threatened or inevitable misappropriation . . . lies at the heart of a basic tension in trade secret law. Trade secret law serves to protect ‘standards of commercial morality’ and ‘encourage invention and innovation’ while maintaining ‘the public interest in having free and open competition in the manufacture and sale of unpatented goods.

54. See id.
55. See §1839.
57. See id. at 447.
58. See, e.g., Hamler, supra note 1, at 383; Feinberg, supra note 4, at 1.
59. See, e.g., PepsiCo, 54 F.3d at 1268; Feinberg, supra note 4, at 1.
60. PepsiCo, 54 F.3d at 1268 (quoting 2 MELVIN F. JAGER, TRADER SECRETS LAW, §1L.01[7] (Rev. Ed. 1994)).
The doctrine requires a "real, actual, and substantial" threat that trade secrets will be disclosed. Legally, the doctrine is implicated when employers fail to obtain contractual agreements with their employees, through either a non-compete or general employment agreement, inclusive of a non-disclosure covenant, either of which, or both, prohibits the employee from disclosing the employer's trade secrets. Susan Street Whaley states that the doctrine is "arguably the most important and influential development in the expansion of the law of trade secrets, [because it] provides that even in absence of a non-compete or a non-disclosure agreement, an employer can prevent an employee from working for a competitor when the employee will "inevitably disclose" the employer's trade secrets."

The application of the doctrine as a remedial legal tool is always fact dependent on, inter alia, (1) whether the new employer is a competitor of the old employer;
(2) the scope of the defendant's new job; (3) whether the employee has been less than candid about their new position; (4) whether the plaintiff has clearly identified the trade secrets at risk; (5) whether the employee signed a non-disclosure and/or non-competition agreement; (6) whether the new employer has a policy regarding the use of others' trade secrets; and (7) whether it is possible to "sanitize" the employee's new position.

Absent written agreement, employers are looking to the doctrine to provide the protections the employer failed to obtain for itself. A finding of inevitable disclosure, and an associated injunction to prevent the departing employee from working and/or disclosing confidential information, thus becomes a judicially imposed ex post facto non-competition agreement. This result subjects the employee to the terms and conditions of the injunction that could be potentially more malevolent in nature than had the employee simply been bound by the terms of a written confidentiality or non-compete covenant.

In fact, application of the doctrine could have the following effects: (1) preventing the employee from working altogether and undermining a basic freedom of mobility; (2) preventing the employee from working in their specific field of expertise, if they are allowed to work at all; (3) putting the employee under a cloud of legal suspicion; (4) inhibiting the legitimate growth of new employers through honest marketplace competition for the best talent; and, perhaps most perniciously of all, (5) legally rewarding the ex-employer through an imposed judicial mechanism for the operational or policy failures of their business. Some courts have chosen to apply the doctrine on the basis of actual or merely threatened misappropriation, while others have rejected the very notion of the courtroom as being the appropriate place to provide after-the-fact prevents competitive work, it does not require the court to determine what, exactly, the trade secret is.

Feinberg concludes by stating that the trade secrets of former employers are over-protected at the expense of the compelling public policy in favor of the right to work. The doctrine is, for all practical purposes, an ex post facto covenant not to compete.


66. See, e.g., Pedowitz, supra note 62, at 370.

67. See, e.g., Di Fronzo, supra note 39, at 1. Di Fronzo states that companies have argued that inevitable disclosure is a "threatened misappropriation and that an injunction under the USTA is an appropriate remedy. In response, others have argued that inevitable disclosure is inconsistent with threatened misappropriation because granting an injunction for inevitable disclosure amounts to an ex post facto covenant not to compete, which is contrary to the intent of the drafters of the USTA, and because obtaining an injunction for threatened misappropriation has historically required an intent to disclose trade secrets."

68. See, e.g., Feinberg, supra note 4, at 2. One of the ironies of the doctrine is that a court can legally prevent an employee from going to work for a new employer whereas the ex-employer may or may not be able to so bind the employee. The ex-employer's inability to restrict the employee is a result of non-compete agreements that are often found to be unenforceable because of excessive restrictions as to time, scope, and geography.

69. These outcomes, inter alia, would seem to be the least that could occur through an application of the doctrine.

70. See, e.g., PepsiCo, 54 F.3d at 1272; Halligan, supra note 3, at 2.
sanctuary for corporate negligence. Finally, the doctrine is implicated in the presence of a written agreement that the ex-employer fears will be unenforceable in a manner sufficient to prevent disclosure of its trade secrets to the new employer.

B. HISTORICAL DEVELOPMENT: THE ROOTS OF THE INEVITABLE DISCLOSURE DOCTRINE

As previously discussed, the doctrine of inevitable disclosure has its roots in trade secret law. The essence of trade secret law relates to legal sanctioning of the need of information owners to protect their proprietary intellectual knowledge, processes, and workings of their tangible and intangible assets from misappropriation by current and former employees. In attempting to achieve this objective, the doctrine found expression in common-law cases as early as 1919. The early cases into which the doctrine could be imputed generally involved trade secret misappropriation, non-compete agreements, and employees who had secretly stolen proprietary information from an employer prior to termination. In 1966, the modern scope of classical trade secret law evolved when the doctrine found expression absent a non-compete or employment agreement.

In Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng’g Corp., the plaintiff had developed a fuel injection pump for diesel engines along with associated trade secrets concerning manufacturing processes, heat treatments, and negative test results. The substance of these trade secrets had also become known to an employee of the plaintiff in the normal course of his employment. The employee, who had no employment or non-disclosure agreement with the plaintiff, had the full run of the plaintiff’s laboratory for four years before leaving for employment with the defendant in a job that would have entailed perfecting the defendant’s fuel injection pumps. The court observed that two conflicting principals of law were operative, (1) an employee’s freedom to contract

71. See, e.g., Campbell Soup Co. v. Giles, 47 F.3d 467 (1st Cir. 1995) (affirming the trial court holding that public policy “counsels against unilateral conversion of non-disclosure agreements into non-competitive agreements. If Campbell wanted to protect itself against the competition of former employees, it should have done so by contract. This court will not afford such protection after the fact”); see also Carolina Chem. Equip. Co. v. Muckenfuss, 471 S.E.2d 721 (S.C. Ct. App. 1996) (holding that an employment related agreement entitled “Covenant Not to Divulge Trade Secrets” was too broad to be enforceable because the definition of trade secret could be construed in such a way as to prevent any competition whatsoever by the ex-employee).

72. See, e.g., Pedowitz, supra note 62, at 370.

73. See, e.g., Feinberg, supra note 4, at 1; Whaley, supra note 9, at 810.

74. See, e.g., Hamler, supra note 1, at 384; Whaley, supra note 9, at 810.

75. See Whaley, supra note 9, at 821.

76. See Wells, supra note 9, at 1.

77. See id.


79. See id. at 646.

80. See id. at 650.

81. See id. at 647, 650–651.
for work and "inevitably" use knowledge obtained on his prior employer's time at his prior employer's expense, and (2) an employer's right to protect its trade secrets. The court determined that while the mere threat of trade secret misappropriation was not sufficient to warrant injunctive relief, a "substantial threat of impending injury" was sufficient to effect judicial intervention to stave off misappropriation. The court held that the employee could work for the defendant in the design of fuel injection systems, but could not work on the particular type of pump in which the plaintiff had proven the inevitability of disclosure of its trade secrets.

The issuance of an injunction preventing free employee mobility, absent contractual binds between the parties for which there were settled judicial remedies, opened the door for the inevitable evolvement of what is now known as the doctrine of inevitable disclosure.

C. THE PRESENT STATUS OF TRADE SECRET CASE LAW AND THE DOCTRINE OF INEVITABLE DISCLOSURE

1. **PepsiCo v. Redmond**

The legal theory underlying the doctrine, as applied to a trade secret misappropriation claim, was brought into full bloom in *PepsiCo v. Redmond*, the case generally acknowledged to be the leading modern expression of the doctrine. In *PepsiCo*, the U.S.

82. See *id.* at 652–53.
83. See *id.* at 654.
84. See *id.* The court wrote that it is "inevitable that some of the knowledge acquired while in the former employment should be made available to the new employer, and courts will not deprive the employee of the right to use the skill he developed through the years." *Id.* at 653. The court went on to say, however, that "the virtual impossibility of [the employee] performing all of his prospective duties for [the defendant] to the best of his ability, without in effect giving it the benefit of [plaintiff's] confidential information, makes a simple injunction against disclosure and use of this information inadequate." *Id.* at 654.

85. In addition to *Allis-Chalmers*, there are numerous examples of pre-*PepsiCo* cases in which employment issues identical to those discussed in specific doctrine of inevitable disclosure cases were adjudged. See, e.g., B.F. Goodrich v. Wohlgemuth, 192 N.E.2d 99 (Ohio Ct. App. 1963); E.I. duPont de Nemours & Co. v. American Potash and Chem. Corp., 200 A.2d 428 (Del. Ch. 1964); Standard Brands, Inc. v. Zumpe, 264 F. Supp. 254 (E.D. La. 1967); Emery Indus., Inc. v. Cottier, 202 U.S.P.Q. 829, (S.D. Ohio 1978); Air Prod. and Chem., Inc. v. Johnson, 215 U.S.P.Q. 547 (Pa. Super. Ct. 1982); National Starch & Chem. v. Parker Chem., 530 A.2d 31 (N.J. Super. Ct. 1987); Baxter Int'l, Inc. v. Morris, 976 F.2d 1189 (8th Cir. 1992); FMC Corp. v. Varco Int'l, Inc., 677 F.2d 500 (5th Cir. 1982). In *Varco*, the court held that absent restrictions against using or disclosing the trade secrets of his ex-employer, the employee was in a position to cause the ex-employer a fear of irreparable injury. See *Varco*, 677 F.2d at 505. The Court ordered the new employer from placing the employee in a job that would cause "an inherent threat of disclosure or use of . . . trade secrets." *Id.* but see IBM Corp. v. Seagate Tech., Inc., 941 F. Supp. 98, 101 (D. Minn. 1992) in which the court held that "in the absence of a covenant not to compete or a finding of actual or an intent to disclose trade secrets, employees may pursue their chosen field of endeavor in direct competition with their prior employer."

86. See *PepsiCo*, 54 F.3d at 1262.
District Court for the Northern District of Illinois issued a preliminary injunction preventing defendant Redmond from taking a new job with the Snapple drink division of Quaker Oats, PepsiCo's arch competitor in the "new age" drink category.\(^8\) The Seventh Circuit, in upholding the district court's preliminary injunction stated that "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."\(^8\)

The Seventh Circuit concluded that Redmond's "intimate knowledge" of PepsiCo's pricing, marketing, and distribution plans would cause him to inevitably disclose that knowledge to Quaker Oats.\(^8\) In making its decision, the court upheld the factors used by the trial court as being dispositive of the inevitability of disclosure of PepsiCo trade secrets. These critical factors included: (1) the review of the new employer's policies as to the use of other's trade secrets; (2) the candor of the employee in disclosing the new job opportunity with the old employer; (3) the specific trade secret knowledge of the employee; (4) the scope of the employee's new job; and (5) the occurrence of actual trade secret misappropriation.\(^9\)

After examining these factors, the court affirmed the district court's grant of a preliminary injunction prohibiting Redmond from assuming his new position with Snapple for six months, and forever prohibiting him from disclosing PepsiCo trade secrets.\(^9\) The court put particular emphasis on the fact that Redmond had, at times, outright lied to PepsiCo and had in other instances been less than candid in disclosing the true scope of his new duties with Quaker Oats.\(^9\)

In dismissing Quaker Oats' and Redmond's protestations that Redmond would not need to utilize PepsiCo trade secrets in his new job with Snapple, the court found that PepsiCo had demonstrated the almost identical nature of Redmond's new and old jobs proving the inevitability of disclosure of PepsiCo trade secrets.\(^9\) In affirming the trial court's decision, the Seventh Circuit held the doctrine applied even in the absence of a restrictive covenant.\(^9\) The court stated: "PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game."\(^9\)

At the subsequent trial on the merits upon remand from the Seventh Circuit, the district court entered a permanent injunction against Redmond from ever disclosing PepsiCo trade secrets and from accepting employment with Snapple for six months.\(^9\) In

\(^{87}\) See id. at 1263.
\(^{88}\) Id. at 1269 (emphasis added).
\(^{89}\) See id. at 1269.
\(^{90}\) See id. at 1270. See also PepsiCo v. Redmond, 1996 WL 3965 (N.D. 111. 1996) (issuing the permanent injunction and final judgment against Redmond, upon remand from the Seventh Circuit).
\(^{91}\) See id. at 1272.
\(^{92}\) See id. at 1270.
\(^{93}\) See id. at 1271.
\(^{94}\) See id.
\(^{95}\) Id. at 1270.
\(^{96}\) See PepsiCo, 1996 WL 3965 at 33.
its ruling, the court held that

"[t]hreatened misappropriation can occur when an employee who knows of his employer's trade secrets is hired by a competitor to perform a job with similar duties. In such circumstances, the inevitable disclosure or use of the trade secrets by the employee in his new job constitutes misappropriation or threatened misappropriation under the Uniform Trade Secrets Act and under common law."97

The decision in Pepsico gave modern voice to the ancient concept of actio servi corrupti, and established the precedent upon which others seeking to prevent disclosure of trade secrets or free movement of employees could rely.98

2. The Present Bounds of the Inevitable Disclosure Doctrine

As might be expected, courts have ruled differently about the efficacy of applying the doctrine. Some courts have seen the doctrine as a necessary tool to prevent misappropriation of trade secrets. Other courts have refused to impose judicial restraints on employee mobility as a result of the employer's own failure to negotiate appropriate post-employment limitations. Still others have applied the doctrine in a limited fashion, as an expedient tool to balance the needs of both parties. The following cases are representative of the body of cases at large, and in the aggregate define the current state of the various doctrinal positions related to inevitable disclosure.

At present, twenty-one states support the theory of inevitable disclosure.99 These states include Arkansas, Connecticut, Delaware, Florida, Illinois, Indiana, Iowa, Kansas, Louisiana, Massachusetts, Michigan, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, Utah, Washington, and Wisconsin. Some of the court decisions in these states did not use the term "inevitable" and so it is debatable whether these states fully adhere to the concept of inevitable disclosure as common law doctrine.100

a. A Random Sampling of Pro-Doctrine Cases101

The pro-doctrine cases essentially hold that the ex-employee's disclosure of trade secrets is either inevitable, or that the ex-employer had proven his legal burden as to the necessity of requiring protection from trade secret disclosure by the ex-employee to his or her new employer. The courts in which the doctrine has found favor invariably look to specific facts of a case in order to justify the inherent conflict between the public

97. See id. at 18.
98. See Schiller, supra note 10, at 839.
100. Id.
policy of employee mobility and the employer’s right to protect its economically valuable intellectual property interests. Examples of cases in which the doctrine was found to be wholly or partially meritorious include: *Uncle B’s Bakery v. O’Rourke*, which held that a former bagel plant manager could not work for competitors within a 500-mile radius;102 *National Starch & Chem. Corp. v. Parker Chem. Corp.*, in which the court cited *PepsiCo* with approval while holding that the probability of disclosure outweighed the probability of non-disclosure;103 *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Ser., Inc.*,104 holding that the Arkansas Trade Secrets Act allowed threatened misappropriation to be enjoined; *Strata Marketing, Inc. v. Murphy*,105 affirming that inevitable disclosure was a theory available under Illinois law, and allowed a plaintiff to defeat the defendant’s motion to dismiss; and *Monovis, Inc. v. Aquino*,106 in which the court held that the employee’s behavior was a substantial factor in its decision to uphold a non-compete agreement.

b. A Random Sampling of Anti-Doctrine Cases107

Courts that have held against the doctrine have consistently taken a stringent view of any inhibitions on the mobility of workers to pursue their livelihood. These courts have refused to allow the judiciary to become a *de facto* extension of the company, by providing a common-law remedy for the failure of the company to adequately protect itself against the highly foreseeable likelihood of employee departures.

Specific examples of cases that have held against the doctrine include *IBM v. Bonyhard*,108 in which the appellate court in an unpublished opinion reversed a preliminary injunction against the employee issued by the district court, and *Campbell Soup Co. v. Giles*,109 in which the court rejected the doctrine as a judicial remedy for the negligence or oversight of the corporation in failing to attain non-compete covenants with its employees. In *Campbell Soup*, the appeals court upheld the lower court ruling that stated public policy counsels against unilateral conversion of non-disclosure agreements into non-competitive agreements.110

Other cases that have held against the doctrine include a Texas case, *Maxxim Med., Inc. v. Michaelson*, in which the district court applied California law and found that


104. 987 S.W.2d 642 (Ark. 1999).


108. 962 F.2d 12 (8th Cir. 1992).

109. 47 F.3d 467 (1st Cir. 1995).

110. *See id.* at 472 (affirming the trial court’s ruling that the courts should not protect a company simply because it failed to do so for itself).
under the PepsiCo factors, disclosure and misappropriation of trade secrets by the defendant were inevitable.\textsuperscript{111} The Fifth Circuit in an unpublished opinion overturned this decision.\textsuperscript{112} In EarthWeb, Inc. v. Schlack, the court refused to expand a bargained-for non-compete agreement by allowing the inevitable disclosure doctrine to be become a de facto restrictive covenant.\textsuperscript{113}

c. Balanced Application of the Doctrine\textsuperscript{114}

Certain courts have split the difference between refusing to find merit in the doctrine and treating the doctrine as a legitimate judicial remedy. The courts that split the difference find merit in the basic idea of inevitable disclosure, but attempt to balance that finding with equity that acknowledges the structures of public policy as to employee mobility. Cases that have taken this middle position include Merck & Co. v. Lyon,\textsuperscript{115} in which the court enjoined the employee from discussing his former employer’s products and pricing for two years, but refused to enjoin the employee from joining his new employer absent a showing of bad faith. Another case, Novell Inc. v. Timpanogos Research Group,\textsuperscript{116} limited an employee from taking a new job for only nine months on the theory that his information about his prior employer would be stale by the end of that period. Yet another approach to the issue is found in Bayer Corp. v. Roche Molecular Sys., Inc.,\textsuperscript{117} in which the court denied a preliminary injunction prohibiting the employee from taking a new job, but also prohibited the employee from making disclosures of proprietary information. Additionally, the court granted Bayer the right to periodic and “unobstructed” discovery to insure compliance with the prohibition.

As can be seen by these widely varying outcomes and opinions in all three subsections, courts have viewed the doctrine in many ways, and future application of the doctrine will likely remain as varied as past application.

D. The Inevitable Disclosure Doctrine in the Context of the Employment Relationship

1. Background

The most critical intellectual property issue surrounding the doctrine relates to the protection of trade secrets within the context of the employee/employer relationship.\textsuperscript{118}

\textsuperscript{112} See Maxxim Med., Inc. v. Michaelson, 182 F.3d 915 (5th Cir. 1999).
\textsuperscript{115} 941 F. Supp. 1443 (M.D.N.C. 1996).
\textsuperscript{117} 72 F. Supp. 2d 1111 (N.D. Cal. 1999).
\textsuperscript{118} See Whaley, supra note 9, at 816.
Absent legal protection against employees directly using or inadvertently revealing trade secrets, the incentive of employers to make investments in developing economically valuable trade secrets that provide market advantages would likely become problematic.119

To justify the capital expenditures needed to develop its business, process, and "institutional knowledge," the employer must believe it is secure in its legal position, and that those entrusted with the enterprise's most valuable secrets are precluded from arbitrarily revealing or outright misappropriating those secrets.120 The doctrine is also implicated in a more insidious way because of employment market conditions.121 According to Christopher Wells, "Businesses recruiting top talent in a hot market . . . face the risk that asking a potential star to sign a non-compete agreement may repel the prospect, who will then join a competitor that does not require it."122

Thus, incredibly, employers may now look to the courts to both create and enforce contractual agreements, in the form of either non-compete or non-disclosure arrangements, that the employer failed to obtain in the ordinary course of its business and that the presumably free employment marketplace itself may have rejected as too restrictive in nature.123

The imposition of judicial remedy as the final arbiter between employer needs and employee freedom undermines, if not outright upsets, the delicate policy tensions long balancing the freedoms and rights of each party.124 The insidiousness of this judicial imposition is that the courts are providing a remedy for employer failure to contractually

119. See Vikas Bajaj, Alcatel Guards Its Trade Secrets, DALLAS MORNING NEWS, Sept. 3, 2000, at 1H. Bakaj references commentary from the subject of his article, George Brunt, senior vice president and general counsel of Alcatel USA, one of the most aggressive proponents of the use of the doctrine of inevitable disclosure to prevent departing Alcatel employees from using Alcatel trade secrets in their new job. Bakaj states that "[c]ompanies won't have an incentive to develop new technologies if employees can take those creations to the market for themselves or a start-up venture." See also Kitch, supra note 6, at 665. Kitch states that:

"[t]here are employees who are privy to information about the plans and strategies of the firm, information that is not used continuously in the business because it is constantly changing, but information that is of economic value to competitors because they can use it to adapt and modify their own strategies."

120. See Whaley, supra note 9, at 816; see also Kitch, supra note 6, at 664. Kitch states that, historically, trade secret issues related to the knowledge of ex-employees concerning "methods of production" or "information about the identity and requirements of regular customers of the ex-firm." Information about the ex-firm's "strategic plans, the identity of its most profitable lines of business, and its internal operational problems were not trade secrets." While such information "was confidential, an employee could not properly provide it to persons outside the firm while still employed." Kitch goes on to say that while "such information was not used regularly and repetitively in the business," once the employment terminated, such information "formed part of the employee's general stock of knowledge about the industry which he was free to employ elsewhere."

121. See Wells, supra note 9, at 3.
122. Id.
123. See Feinberg, supra note 4, at 4.
124. See id.
restrict employees as one more form of required self-protection of its secrets.\textsuperscript{125} In a sense, given the strictures of all of the model acts, as well as case law, in demanding that employers take all necessary and reasonable steps to protect their trade secrets, it could be said that failure to legally contract with employees to respect the bounds of knowledge and disclosure is, itself, a form of contributory negligence to the employers own professed damages.\textsuperscript{126}

While the legal questions surrounding an allegation of trade secret misappropriation are generally ones of fact, the deeper question being addressed by courts in deciding cases involving the doctrine goes to the contending issues of property rights protection and employee mobility, with its associated freedoms to seek the best work and best pay.\textsuperscript{127} According to Michael Epstein, a trade secret litigator practicing in New York, “\textsuperscript{128}Generally the law promotes employee mobility. However, as courts become more protective of intellectual property it’s appropriate for businesses to push the law."\textsuperscript{128} Likewise, in an interesting pro-doctrine pro-business statement that cleverly aligns the interests of remaining employees with those of the employer charging trade secret misappropriation against one of their previous colleagues, “\textsuperscript{129}[i]t's not just the company, but you're also talking about protecting the employees who work there. To allow a trade secret to walk out of a company, to me, would lessen the value of the employees who are dedicated to that company.”

In contrast to the above-stated perspective, courts “traditionally have emphasized that employee mobility and freedom must be protected and favored over the employer’s protection of its trade secrets.”\textsuperscript{130} Kitch states that “one could reasonably conclude that it is the usual expectation of employees that they are free to quit their jobs and seek employment elsewhere, using whatever they have happened to learn on their previous job or jobs.”\textsuperscript{131}

With the judicial maturation of the doctrine, Whaley states, “some courts that purport to be protecting the important value of trade secrets are actually restricting competition and preventing employee mobility in a way contrary to the traditional approach taken by many courts.”\textsuperscript{132} As stated by Ian Feinberg, “\textsuperscript{132}[t]he mere threat of an inevitable

\textsuperscript{125} See id.

\textsuperscript{126} This is the author's own opinion.

\textsuperscript{127} See Weil, \textit{ supra} note 12, at T1. “[I]f Alcatel's inevitable disclosure argument prevails, 'it means that you're an indentured servant to any company you start with'—and that could stifle innovation’ (quoting Mark Bluhm, President and Chief Executive Officer, Navarro Networks, Inc., Richardson, Texas). The implications of this statement come to rest in the Thirteenth Amendment prohibition against indentured servitude, a topic outside the scope to this paper but nonetheless implicit in all applications of the doctrine.


\textsuperscript{129} Weil, \textit{ supra} note 12, at T2 (quoting Gary Solomon, Attorney, Jenkens & Gilchrist, Dallas, Texas).

\textsuperscript{130} Whaley, \textit{ supra} note 12, at T2 (quoting Gary Solomon, Attorney, Jenkens & Gilchrist, Dallas, Texas).

\textsuperscript{131} Kitch, \textit{ supra} note 6, at 666.

\textsuperscript{132} Whaley, \textit{ supra} note 9, at 811. The “traditional approach” that Whaley is referring to is the historical approach to trade secret protection that when an employee departed for another employer courts enjoined that employee from disclosing the trade secrets of his or her prior
disclosure injunction can result in a decision not to hire an employee of a competitor, chilling employee mobility."\(^{133}\)

2. **Employer/Employee Contractual Agreements**

There are various contractual agreements that can exist between an employer and employee.\(^{134}\) The most critical agreements that govern the scope of the relationship between the employer and employee, and control the secrecy or revelation of trade secrets, are non-compete and non-disclosure agreements.\(^{135}\)

a. **The Non-Compete Covenant**

Non-compete covenants are post-employment covenants that effectively extend trade secret law by prohibiting the subject of the covenant from competing with his or her prior employer for a period of time, generally one to two years.\(^{136}\) Whereas trade secret law prohibits the disclosure of the ex-employer's valuable secrets, the non-compete covenant "block[s] the mechanism by which the spillover occurs."\(^{137}\) In other words, the employee cannot even go to work for a competitor let alone disclose the ex-employer's secrets.\(^{138}\)

The non-compete covenant assures that, given the passage of time, when the employee does return to work in the field of endeavor in which the trade secret exists, the trade secret knowledge of the employee will be rendered moot and the employee will bring only "her general and industry-specific human capital."\(^{139}\)

As a general rule, employees who are not subject to non-compete agreements are free to seek employment at a competitor of their prior employer.\(^{140}\) Regardless of this

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133. Feinberg, supra note 4, at 2.
134. See, e.g., Sheinfeld & Chow, supra note 99; Pedowitz, supra note 62, at 350. Employment agreements that can be formed between employer and employee include confidentiality, non-competition, non-solicitation, and invention agreements. Generally, non-competition agreements with restrictive employment clauses are what wind up being litigated.
135. See Whaley, supra note 9, at 817.
137. Id. at 602.
138. See id.
139. Id. at 603. Gilson points out that not only will employer-specific information have been rendered valueless over time, but the value of inchoate inventions the employee has strategically chosen not to bring to conception during her employment, will have dissipated over the covenant's term. Nothing of value is left to spill over to a new employer or start-up venture. Gilson's analysis is similar to the reasoning of the court in *Novell Inc. v. Timpanogos Research Group*, 46 U.S.P.Q.2d 1197 (D. Utah 1998). In that case, the court limited an employee from taking a new job for only nine months, on the theory that information about his prior employer would be stale by the end of that period.
140. See Pedowitz, supra note 62, at 359.
freedom, however, the employee is still prohibited by common-law from revealing the trade secrets of the ex-employer in the desire to gain competitive advantage. Should the employee breach his "duty of loyalty" to his ex-employer to not reveal trade secrets, the employer and/or new employee can be enjoined and damages may be awarded. Jurisdictions that uphold covenants not to compete will review, inter alia, the following factors to determine the validity of a given covenant: (1) whether there is a legitimate interest on the part of the employer in preventing the employee from competing with its interests; (2) whether the agreement is reasonable given an "all the circumstances test;" (3) whether the agreement is reasonably limited in time and geography; and (4) whether enforcement would cause undue burden or harm to the public.

b. The Non-Disclosure Agreement or Covenant

Non-disclosure agreements are designed to prevent employees from disclosing information deemed by the employer to be secret. The terms of such agreements generally include a promise by the employee to maintain confidentiality, a definition of what the employer deems to be confidential, and a promise by the employee to return any written information in the employee's possession to the employer upon termination.

The limitations of non-compete and non-disclosure agreements define the scope of the relationship and the duties between the employer and employee. As with any contract that is freely negotiated, employment-related documents are neutral in their day-to-day legal effect until such time as an actual or threatened breach of duty or breach of contract occurs. Under the doctrine, the standard of a threatened breach has been lowered, and the employer need only plead the "mere threat" of disclosure, let alone its "inevitability."

Inevitability, however, is not an equivalent concept or synonym for threat. In so lowering the judicially settled concept of threatened breach, to a state where a simple fear of trade secret disclosure is sufficient to obtain judicial intervention and possible relief, the employer/employee bond can quickly turn into a noose.

141. See id. at 360.
142. See id.
143. See id. at 362.
144. See Sheinfeld & Chow, supra note 99, at 422.
145. See id. at 443.
146. I am making the assumption that the terms of the employment contracts have been freely negotiated and that these contracts, in whole or in part, are not either per se illegal under the laws of a given state nor are adhesion contracts.
147. See, e.g., Halligan, supra note 3, at 2; Feinberg, supra note 4, at 2.
148. See, e.g., Weil, supra note 12, at T1; Boudette and Davis, supra note 15, at B8A. See also Miles J. Feldman, Comment, Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship, 9 Berkeley Tech. L.J. 152, 178 (1994). Feldman points out that "[a] majority of courts will enforce a covenant restricting an employee from competing with a former employer so long as it is reasonable in scope, territory, and duration, and is necessary for the protection of the employer."
III. Investment and Worker Issues in the Context of the Doctrine

A. POTENTIAL EFFECTS OF THE DOCTRINE ON INVESTMENT

According to Ronald J. Gilson, the rise of Silicon Valley as the key center of technology in the U.S. is directly related to the legal structure in California that engenders freedom of mobility of workers to move from established firms to start-ups. This freedom is exemplified in that “California does not enforce post-employment covenants not to compete.” Specifically, Gilson comments that the doctrine of inevitable disclosure “threatens just the type of knowledge spillover that has been so critical to Silicon Valley.” Gilson concludes his analysis of the doctrine by stating that California’s reluctance to judicially impose the doctrine should be maintained: “Given the uncertainty of the theoretical tradeoff between fully protecting property rights and protecting the agglomeration economy that supports the industrial district, courts should be reluctant to alter the legal infrastructure that preserves the existing, and successful, balance.”

In another expression of this same concern as to the chilling effects of the doctrine on the transfer of knowledge, venture capitalist Jon Bayless, general partner of Sevin Rosen Funds of Dallas, Texas, says that lawsuits involving application of the doctrine will make aspiring entrepreneurs more hesitant to develop start-ups, thus inhibiting venture funding opportunities and economic development. In discussing an inevitable disclosure-based lawsuit filed against Chiaro Networks Ltd., a company funded by Sevin Rosen, Bayless states, “I know of numerous examples where employees would have left and started companies, but were too afraid of getting sued.” Further, according to Ken Lewis, Chief Executive Officer, Chiaro Networks, Ltd., Richardson, Texas, “if this trend (the filing of inevitable disclosure lawsuits) continues, this is not the right kind

149. See Gilson, supra note 133, at 602. In this article, Gilson compares the legal infrastructures of California with that of Massachusetts, where covenants not to compete are enforced. Gilson’s theory is that the enforcement of non-compete clauses “have the potential to restrict seriously the movement of employees between existing firms and to start-ups and, hence, to restrict seriously employee-transmitted knowledge spillovers.” The enforcement of these covenants, and the resultant restriction of employee mobility, is directly responsible, in the case of Massachusetts, for the decline of the once thriving “industrial district” of Route 128. By contrast, California’s “legislative efforts . . . provide the proper conditions for the development of high technology industrial districts.” In the most stark proof of premise, that the freedom of employee mobility facilitates the growth or inhibition of high-technology industrial districts, Gilson references data that shows that in 1990, Silicon Valley exported $11 billion worth of electronic products compared to Route 128’s exports of $4.6 billion. By 1997, however, San Jose exported $29.06 billion (just behind New York with $29.08 billion) while the Boston area came in twelfth with $8.7 billion of exported goods.

150. Id.

151. Id. at 624. Gilson points out that “[i]t is because of the very character of tacit knowledge that an employee cannot avoid its use.”

152. Id. at 626.

153. See Weil, supra note 12, at T1.

154. Id.
of atmosphere to foster another Silicon Valley here [Richardson, Texas] in the Telecom Corridor.”

Echoing Lewis, Ian Feinberg states, “the mobility of engineering and other technical employees has been critical to the success of many technology companies in Silicon Valley and elsewhere, particularly new start-up companies.” Feinberg states that:

"[t]he mere threat of an inevitable disclosure injunction can result in a decision not to hire an employee of a competitor, chilling employee mobility. For the same reason, widespread application of the doctrine could adversely affect the creation of new companies by people who are disenchanted with their present employer, or who think they have invented a better mousetrap." Feinberg concludes his article by stating the following:

"[t]he inevitable disclosure doctrine has the potential to chill Silicon Valley’s explosive growth. If an employee chooses a job at another firm in his field of expertise, it is likely that his new job will be similar to his old job. But under the theory of inevitable disclosure, the employee can be enjoined from using his or her non-trade secret, general knowledge and skills to give the ex-employer adequate assurance that its trade secrets are not at risk. In such circumstances, a start-up could be left with a ruinous, judicially created covenant not to compete." 

One of the most aggressive companies in employing this doctrine is Alcatel USA, a Paris, France company with American operations in Plano, Texas. The driving force behind Alcatel’s almost artful pursuit of potential employee malfeasance has been George Brunt, senior vice president and general counsel of the company. Brunt assumes a take-no-prisoners approach to the protection of Alcatel’s intellectual property assets: "[i]f someone robbed $50 from a bank, the punishment would be very severe—they would probably do time in prison. But people rob billions from companies big and small through intellectual property, because we haven’t conceptualized the value of an intangible idea yet in our society.”

In a well-publicized case of its aggressive protection of its trade secrets, Alcatel sued an ex-employee in 1997, charging that the employee had withheld an idea for a software program conceived while still an employee of Alcatel. On January 19, 2000, a state district judge in Texas ruled that the employee must disclose to Alcatel the idea, which had never been written down. As punishment to the employee, the judge awarded Alcatel 20 percent of the idea, even though the ownership of the idea itself was in

155. Id. at T3.
156. Feinberg, supra note 4, at 1.
157. Id. at 2.
158. Id. at 4.
159. See Bajaj, supra note 116, at 1H.
160. See id. Vikas Bajaj, Ownership of Ideas at Heart of Court Case, Dallas Morning News, Aug. 10, 2000 at 1D.
161. Id.
162. See Bajaj, supra note 157, at 1D.
163. See id.
dispute, and no one knew whether or not the idea even worked. The ownership of the remaining 80 percent will be determined by a trial. The stakes and risks are high according to Brunt, "[i]f it [the computer software program] is what [the employee] said it is, it will be one of those ideas worth billions of dollars. We don't know. It could be worthless." Mr. Brunt says that he is not looking to stop new technology development, but cannot abide the effective conversion of Alcatel assets by competitors through the hiring of Alcatel employees. According to Brunt, "[i]t's a race, and as long as that race is fair, great, but . . . these people are starting near the finish line." Needless to say, the recipients of Alcatel's lawsuits feel differently. According to Dallas-based venture capitalist Jon Bayless: "[Alcatel is] using their legal strategy as a competitive weapon, and in some cases they are justified, and in others they are not. They don't seem to be able to differentiate between where they have merit and don't have merit." Not to be dissuaded, Brunt counters that: "[p]eople ascribe all sorts of motivation to our intellectual property litigation. But the real motive is that we are required by law to be vigilant in protecting our intellectual property, and it's the underpinning of the whole business." It is difficult to determine where the deep tension between application of the doctrine, worker freedom, and investor comfort in investing in start-up companies in a high-employment, litigious market will settle. As stated by Susan Scafidi, professor of intellectual property law at Dedman School of Law at Southern Methodist University in Dallas, Texas, "I am concerned that a legal strategy such as Alcatel's will have a chilling effect on innovation. It may be good strategy from Alcatel's perspective, but not a good strategy from society's perspective."

B. Worker Issues

On October 3, 2000, Congress passed the so-named High Tech Visa Bill. Under this bill, the Immigration and Naturalization Service would be able to issue 195,000

164. See id.
165. See id.
166. See Bajaj, supra note 116, at 5H. Alcatel's chief concern is with its ability to unveil products before a start-up staffed by former employees does. That is, if a competitor or venture capitalist gets access to pre-production secrets and Alcatel engineers, Alcatel fears the start-up has the opportunity to dominate its chosen market(s).
168. Id.
169. Id. Chiaro Networks Ltd. and Monterey Networks were both funded by Sevin Rosen and are both the subjects of lawsuits by Alcatel.
170. Id.
171. Id.
H-1B visas a year to foreign-born workers with college degrees and special skills. These work visas are good for six years although they are reviewed after three. In the past three years, the number of H-B1 workers permitted in the United States has tripled from 65,000.

The Congressional vote passing the High Tech Visa Bill was 96 to 1 in the Senate and a voice vote in the House. The bill was written and passed in direct response to the needs of the high tech industry, which is woefully short of the required number of specially trained workers, in particular, computer programmer, and software engineers. According to Representative David Drier (R. Ca.), "[t]here are 300,000 jobs that have yet to be filled." Then Senator Spencer Abraham (R. Mich.) echoed the problem:

"[t]he one thing on which I think almost everyone is in agreement, is that we face a serious worker shortage with respect to high-tech employment and skilled labor in America today. The short-term problem is how to fill the key positions immediately, so we don't lose opportunities to foreign competitors."

According to Harris Miller, president of the Information Technology Association of America, a technology industry trade group:

"companies frequently use these people for computer programming jobs and creating new software that can be used in a global environment. Is 195,000 going to be enough? But 115,000 wasn't nearly enough. The new economy is simply growing much faster than anybody ever projected."

These issues become even more problematical in light of Kitch's observation that:

"[t]he expansion of trade secrecy protection to encompass all confidential information increases the range of employees who are subject to an obligation not to make that information available to a new employer."

Kitch goes on to state that "[t]he expanded scope of trade secrecy protection afforded by the Restatement brings a new class of employees within the ambit of its prohibitions."

The implication of more jobs than workers, combined with a litigious environment driven by the fear of employers as to the vulnerability of their intellectual property, does not bode well for enhanced employee mobility. The tender balance between employee mobility..."
mobility and employer protections as to investments in technologies and know-how is clearly tipped at present in the favor of the employer.

IV. Conclusion

The doctrine of inevitable disclosure is of serious concern to investors, companies, and employees. On a going forward basis, the inevitable disclosure doctrine looks to be an even more ominous tool than it has been to date. If continuously utilized by the courts to impose legal employment conditions that independent parties did not bargain and contract for, the doctrine will have a detrimental effect on the growth of the country's vital technology sector. The likely effects of this judicial imposition into the realm of private business contract will be a reduction in investment in new and growing companies, a diminishment in the number of start-up enterprises, decreased employee freedom, and increased costs to current employers. On top of the business issues, Constitutional issues related to Thirteenth Amendment proscriptions against indentured servitude lurk not too far in the background.

The combination of these conditions will engender slower and more deliberate decision-making on the part of investors and will directly impact the mobility and freedoms of workers and the growth of concentrated and efficient high technology centers. The potential slowdown in investment in new companies, technologies, and people over time, at least in theory, could have a critical deleterious effect on the growth of the technology industry, and the consequent health of the overall economy.

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with Microsoft, will not be an attractive hire to a company with a small litigation budget, because Microsoft has a legal department of over fifty lawyers and a reputation for aggressive litigation.”