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I. Background

Legal regimes that protect trade secrets provide businesses with an important incentive to create and develop new technologies.[1] Businesses can utilize proprietary information to their economic advantage only so long as it remains secret from competitors. By punishing those who improperly disclose and use protected information, trade secret laws spur innovation by providing an efficient means by which business can protect their investments in research and development.[2] Trade secret laws find further support under theories of fairness and morality, which stand for the proposition that theft of another's property is inherently wrong.[3] However, overbroad application of trade secret laws can interfere with competition and employee mobility.[4] Thus, trade secret laws must strike a careful balance between protecting business' proprietary information and promoting competition and employee autonomy.[5]

Trade secret doctrine, which originated as a common law tort, initially emerged as a unified body of law in the Restatement (First) of Torts and later in The Uniform Trade Secrets Act (UTSA).[6] Forty-two states, including California, have adopted the UTSA or a modified version of the UTSA.[7] The UTSA defines a trade secret as "information, including a formula, pattern, compilation, program, device, method, technique, or

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1 *See generally* ROBERT MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 31-122 (2nd ed. 2000).
2 Susan Street Whaley, Comment, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, 816 (1999).
3 MERGES ET AL., *supra* note 1, at 43.
4 Whaley, *supra* note 2, at 840-41.
5 *Id.*
6 *See* JAMES POOLEY, TRADE SECRETS § 2.02[1] (1997). ("The first major effort at the synthesis of the developing U.S. law of trade secrets was the Restatement of Torts."); UNIF. TRADE SECRETS ACT, 14 U.L.A. 402-03 (1985 & Supp. 1990).

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."[8] California's version of the UTSA ("CUTSA") eliminates the "readily ascertainable" language in clause (i).[9]

To state a claim for trade secret misappropriation, a plaintiff "must plead facts showing (1) the existence of subject matter which is capable of protection as a trade secret; (2) the secret was disclosed to the defendant, ...under circumstances giving rise to a contractual or other legally imposed obligation on the part of the disclosee not to use or disclose the secret to the detriment of the discloser; and (3) if the defendant is an employee or former employee of the plaintiff ... the facts alleged must also show that the public policy in favor of the protection of the complainant's interest in maintaining the secret outweighs the interest of the employee in using his knowledge to support himself in other employment."[10]

For a finding of trade secret misappropriation, California courts require that the defendant use, disclose, or acquire knowledge of the trade secret, knowing the secret was

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[7] Benjamin A. Emmert, Comment, *Keeping Confidence with Former Employees: California Courts Apply the Inevitable Disclosure Doctrine to California Trade Secret Law*, 40 SANTA CLARA L. REV. 1171, 1177 (2000).
[8] UNIF. TRADE SECRETS ACT, § 1(4).
[9] CAL. CIV. CODE § 3426.1(d).
[10] Cal Francisco Investment Corp. v. Vrionis, 14 Cal. App. 3d 318, 321-22 (Cal. Ct. App. 1971).

acquired by improper means or in violation of a duty of confidentiality.[11] California statute also permits a court to enjoin "actual or threatened misappropriation."[12]

II. The Problem of Departing Employees and the Doctrine of Inevitable Disclosure

The departing employee presents a potentially difficult problem for employers seeking to protect their trade secrets.[13] Typically, an employee acquires knowledge of her employers' trade secrets over the course of her employment, especially if she holds a position in management or technology development. When the employee departs, the employer may attempt to prevent disclosure of trade secret information by the employee in one or both of the following ways. First, the employer may enforce a non-competition agreement, or "covenant not to compete," previously made between the employer and the employee.[14] In a non-competition agreement, an employee agrees not to work for a competitor, generally for a specified period of time following her departure. Second, the employer may also invoke the "doctrine of inevitable disclosure" to obtain an injunction blocking the departing employee from working for a competitor.[15] This doctrine is based on the presumption that an employee cannot help but rely on her knowledge of a former employer's trade secrets in the performance of a new position having similar responsibilities.[16] In principle, the employer need not show actual misappropriation or even intent to misappropriate under this theory.[17]

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[11] CAL. CIV. CODE § 3426.1(b); *See* Globespan, Inc. v. O'Neill, No. CV 01-04350 LGB, 2001 WL 801609, at *6 (C.D. Cal. July 12, 2001); *See* Danjaq, LLC v. Sony Corp., No. CV 97-8414-ER, 1999 WL 317629, at *1 (C.D. Cal. Mar. 11, 1999).
[12] CAL. CIV. CODE § 3426.2(a).
[13] *See generally* MERGES ET AL., *supra* note 1, at 84-90.
[14] Whaley, *supra* note 2, at 817.
[15] *Id*. at 818-22.
[16] *Id.*
[17] Matthew K. Miller, Note, *Inevitable Disclosure Where No Non-Competition Agreement Exists: Additional Guidance Needed*, 6 B.U. J. SCI. TECH. L. 9, ¶ 16 (2000).

The Seventh Circuit upheld the doctrine of inevitable disclosure in the landmark case of *PepsiCo v. Redmond*.[18] Here, PepsiCo enjoined Defendant Redmond, a former employee, from working for its direct competitor, Quaker.[19] As a high-level executive, Redmond managed PepsiCo's entire business unit in California.[20] He acquired knowledge of PepsiCo's trade secrets, including its three-year strategic plan, its pricing structure, its plans for gaining further market share, and its new product delivery system.[21] In 1994, Redmond left PepsiCo to accept a nearly identical position at Quaker, where he would implement marketing and distribution strategies for competing beverages.[22] The court found that, "unless Redmond possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of [PepsiCo's] trade secrets."[23]

Since *PepsiCo*, several state and federal district courts have applied the doctrine of inevitable disclosure in granting injunctions against departing employees.[24] However, many of these cases demonstrate the courts' willingness to apply the doctrine only when the plaintiff has presented evidence that the departing employee was not forthcoming in disclosing his plans for new employment or otherwise acted in bad faith.[25] Some commentators interpret these decisions as limiting the doctrine's applicability to situations where there exists strong evidence of a "threatened" misappropriation.[26]

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[18] PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).
[19] *Id.*
[20] *Id.* at 1264.
[21] *Id.* at 1266.
[22] *Id.* at 1267.
[23] *Id.* at 1269.
[24] DoubleClick, Inc. v. Henderson, 1997 WL 731413 (N.Y. Sup. Ct. Nov. 7, 1997); Uncle B's Bakery, Inc. v. O'Rourke, 920 F. Supp. 1405 (N.D. Iowa 1996); Merck & Co. v. Lyon, 941 F. Supp. 1443 (M.D.N.C. 1996); Novell, Inc. v. Timpanogos Research Group, Inc., 46 U.S.P.Q.2d 1197 (Utah D. Ct. 1998).
[25] *Id.*
[26] Miller, *supra* note 17, at ¶ 49.

Otherwise stated, the courts are reluctant to apply the doctrine in situations where the employer simply fears that the departing employee may inadvertently or unconsciously use or disclose her knowledge of trade secrets.[27]

III. California Courts Have Rejected the Doctrine of Inevitable Disclosure as Counter to Public Policy Favoring Employee Mobility

Until recently, it was unclear whether the doctrine of inevitable disclosure doctrine applied to cases in California and the Ninth Circuit.[28] Some state court decisions suggested that it could. In *Advanced Micro Devices v. Hyundai Electronics America*, Plaintiff "AMD" filed a complaint against Defendant Hyundai alleging misappropriation of trade secrets.[29] Several employees had left AMD for Hyundai, who announced shortly thereafter the creation of its "flash memory" division, which would directly compete with other manufacturers of flash memory, including AMD.[30] Although AMD presented no direct evidence of misappropriation, AMD convinced the court that the disclosure of its trade secrets by its former employees was inevitable.[31] On this basis, the court issued a preliminary injunction blocking the former AMD employees from working on certain projects for Hyundai.[32]

In *Electro Optical Industries, Inc. v. White*, the Court of Appeal explicitly stated that, "although no California court has yet adopted it, the inevitable disclosure doctrine is

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[27] *Id.*
[28] Gary E. Weiss & Sean A. Lincoln, *Accepting the Inevitable: The California Court of Appeal Has Finally Adopted the Trade Secret Doctrine of Inevitable Disclosure*, THE RECORDER, Feb. 2000, at S6.
[29] First Amended Complaint, Advanced Micro Devices, Inc. v. Hyundai Elecs. Am., Santa Clara Superior Ct. No. CV752679 (Oct. 24, 1995).
[30] *See* Emmert, *supra* note 7, at 1194.
[31] *Id.* at 1195.
[32] *Id.*

rooted in common sense and calls for a fact specific inquiry. We adopt the rule here."[33] Although the court eventually affirmed denial of Plaintiff's motion for a preliminary injunction, finding that the disputed trade secrets either were not known by the Defendant or were not in fact secret, commentators viewed this decision as an affirmative adoption of the doctrine of inevitable disclosure by California.[34] However, the California Supreme Court ordered depublication of this decision.[35]

Recent cases from California federal district courts have rejected the doctrine. In *Danjaq v. Sony Corporation*, the court stated outright that Plaintiffs could not rely on the inevitable disclosure doctrine as articulated in *PepsiCo* because "*PepsiCo* is not the law of the State of California or the Ninth Circuit."[36] In *Computer Sciences Corporation v. Computer Sciences International, Inc.*, the court granted summary judgment for the Defendants in an action for misappropriation.[37] Here, the court held that the doctrine may provide a basis for injunctive relief to *prevent* the disclosure of trade secrets.[38] However, the court held that a plaintiff cannot rely on the doctrine to establish that misappropriation actually took place.[39] The plaintiff must supply evidence, and the doctrine cannot substitute therefor.[40]

In *Bayer v. Roche Molecular Systems, Inc.*, the court explicitly stated that, "California trade secrets law does not recognize the theory of inevitable disclosure; indeed such a rule would run counter to the strong public policy in California favoring

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[33] 90 Cal. Rptr. 2d 680, 684 (Cal. Ct. App. 1999), *ordered depublished* (April 12, 2000).
[34] *See* Weiss & Lincoln, *supra* note 28.
[35] 90 Cal. Rptr. 2d 680, 684 (Cal. Ct. App. 1999), *ordered depublished* (April 12, 2000).
[36] Danjaq, LLC v. Sony Corp., No. CV 97-8414-ER, 1999 WL 317629, at *1 n.1 (C.D. Cal. Mar. 11, 1999)
[37] Computer Sciences Corp. v. Computer Sciences Int'l Inc., Nos. CV 98-1374-WMB SHX, CV 98-1440-WMB SHX, 1999 WL 675446 (Aug. 12, 1999).
[38] *See id.* at *16.
[39] *See id.*

employee mobility."[41] The court equated the doctrine of inevitable disclosure with an ex poste, de facto covenant not to compete.[42] California courts generally reject covenants not to compete as inconsistent with California Business and Professions Code Section 16600.[43] This section provides that "every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extend void."[44]

The court in *Globespan v. O'Neill* adopted the same position as did the *Bayer* court, rejecting the doctrine on the grounds of public policy.[45] In this case, Defendant O'Neill left his New Jersey employer, Plaintiff Globespan, to work at Defendant Broadcom, a direct competitor located in California.[46] The court chose to apply California law over New Jersey law under the "governmental interests" test, finding that application of New Jersey law would impair California public policy more than application of California law would impair New Jersey public policy.[47] The logic followed by the court in reaching this conclusion is somewhat questionable albeit consistent with that of other California courts faced with similar "choice of law" issues.[48]

As in *Computer Sciences*, Globespan attempted to use the doctrine to support a misappropriations claim against Broadcom and O'Neill.[49] The court granted Broadcom's motion for summary judgment, rejecting Globespan's reliance on the inevitable disclosure doctrine as grounds for such a claim.[50] However, the court did not rule on the

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[40] *See id.*
[41] 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999).
[42] *See id.*
[43] *Id.* at 1119.
[44] CAL. BUS. PROF. CODE § 16600 (West 2001).
[45] Globespan, Inc. v. O'Neill, No. CV 01-04350 LGB, 2001 WL 801609, at *4 (C.D. Cal. July 12, 2001).
[46] *Id.* at *2.
[47] *Id.* at *3-4.
[48] Application Group, Inc. v. Hunter Group, Inc., 61 Cal. App. 4th 881 (Cal. Ct. App. 1998).
[49] *Globespan*, 2001 WL 801609, at *1.
[50] *Id.* at *6-7.

preliminary injunction sought by Globespan, leaving the question open as to whether an employer may still invoke the doctrine as grounds for injunctive relief. The court's definitive statement that, "the 'inevitable disclosure' doctrine is not recognized in this District,"[51] suggests that an employer may not. However, in stating that, "Plaintiff has not alleged that either Defendants Broadcom or O'Neill *will* use or disclose Plaintiff's trade secrets,"[52] the court suggests it would consider such an allegation, had it been made. Perhaps the court here is attempting to draw a line between "threatened misappropriation" under California Civil Code Section 3426.2(a) and "inevitable disclosure," leaving the door open for injunctive relief based on the former but not the latter. If so, the court may opt to impose a higher evidentiary standard for "threatened misappropriation" (for example, evidence of intent or bad faith) than it would for "inevitable disclosure," as discussed above.

IV. Conclusion

California federal courts have rejected the doctrine of inevitable disclosure as counter to public policy favoring employee mobility. This policy is reflected in California Business and Professions Code § 16600, which prohibits non-competition agreements. However, it is unclear whether the courts properly concluded that the doctrine of inevitable disclosure creates a de facto covenant not to compete that falls within the literal and judicially implied scope of § 16600. Although the doctrine of inevitable disclosure raises serious questions regarding its impact on the right of

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[51] *Id.* at *6.

individuals to earn their own livelihoods, a per se rule against the doctrine may swing the pendulum too far in the opposite direction. Without this doctrine, trade secret holders may find themselves at serious risk of losing their investments and their business advantages. Therefore, an optimal solution would allow limited application of the doctrine in circumstances where there exists a substantial and imminent risk of harm from loss of a trade secret.

[52] *Id.* (emphasis added).