

I. BACKGROUND

Some federal district courts have invoked the doctrine of inevitable disclosure in granting preliminary injunctions to employers seeking to prevent former employees from working for competitors.¹ Under this doctrine, the court presumes that an employee will inevitably use or disclose her knowledge of a former employer's trade secrets in the performance of a new position having similar responsibilities.² Until recently, it was unclear whether the inevitable disclosure doctrine was the law in California and the Ninth Circuit. As discussed below, however, the United States District Court for the Central District of California in *Globespan, Inc. v. O'Neill* rejected the inevitable disclosure doctrine as counter to California's public policy favoring employee mobility.³

II. FACTS AND PROCEDURAL POSTURE

Plaintiff Globespan, Inc., a New Jersey corporation, employed Defendant John O'Neill for nearly three years as a Market Development Manager and Product Line Manager in its "DSL" division. Defendant O'Neill left Globespan to work at Defendant Broadcom, a corporation located in California and one of Globespan's direct competitors. Defendants O'Neill and Broadcom first filed suit seeking declaratory relief of non-misappropriation of trade secrets and alleging unfair competition.⁴ Plaintiffs later filed suit in New Jersey state court alleging, *inter alia*, misappropriation of trade secrets. Defendants removed the action from New Jersey state court to New Jersey federal district

¹ See, e.g., *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

² *Id.* at 1269.

³ *Globespan, Inc. v. O'Neill*, No. CV 01-04350 LGB, 2001 WL 801609 (C.D. Cal. July 12, 2001).

court on the grounds of diversity of citizenship.⁵ The New Jersey federal district court transferred the action to the Central District of California for consolidation with Defendants' first filed suit.⁶

Plaintiff's complaint set forth the following counts: 1) misappropriation of trade secrets against Defendants O'Neill and Broadcom; 2) unfair competition against Defendants O'Neill and Broadcom; and 3) breach of the duty of loyalty against Defendant O'Neill.⁷ Plaintiff further moved to enjoin Defendant O'Neill from entering into an employment contract with Defendant Broadcom for at least one year.⁸ The court's opinion addressed Defendant Broadcom's motions to dismiss counts one and two on the grounds that the inevitable disclosure doctrine does not provide sufficient basis to support either of these allegations. The court granted both motions.⁹

III. THE COURT'S ANALYSIS

A. "Choice of Law" Analysis

Prior to ruling on Defendant Broadcom's motion, the court first determined whether the law of California or the law of New Jersey would apply to the case. In cases of "concurrent jurisdiction," where duplicative suits are filed in different federal courts, the "first-filed" rule dictates that the court in which the first suit was filed will decide the case. Here, Defendants Broadcom and O'Neill filed suit in California seeking declaratory relief prior to Plaintiff's filing suit in New Jersey. Therefore, the court in

⁴ *Id.* at *1.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at *7.

New Jersey properly transferred the case to the district court in California.¹⁰ Once transferred, the court must determine which “choice of law” rules apply to the case. The “choice of law” rules dictate whether the laws of the transferor court or the transferee court will apply to the case. Unless the case has been transferred for the purpose of correcting venue, a federal court sitting in diversity will adopt the “choice of law” rules of the state in which it sits. Here, the court adopted California’s “choice of law” rules in order to determine whether the laws of New Jersey or the laws of California should apply.¹¹

Under California’s “choice of law” rules, the court will apply California law unless one of the parties argues that the law of the transferor state should apply. In that case, the court will apply a three-step “government interests” test in choosing which law to apply.¹² The first step of this test asks whether the substantive law differs between the two jurisdictions. The second step asks whether, if the laws differ, both jurisdictions have an interest in applying their own law. If so, the third step asks “which jurisdiction’s interest would be more impaired if its policies were subordinated to those of the other jurisdiction.” The law of the “more impaired” jurisdiction should be applied.¹³

In applying the first two steps of this test, the court first examined the relevant laws in California and New Jersey.¹⁴ The Uniform Trade Secrets Act, codified by California Civil Code § 3426 *et seq.*, demonstrates California’s interest in protecting trade secrets. Although not codified, New Jersey common law likewise protects trade secrets. Additionally, California Business and Professions Code § 16600 (“CBPC §

¹⁰ *Id.* at *3, n.1.

¹¹ *Id.* at *3.

¹² *Id.* at *3, *4.

¹³ *Id.*

16600”), which renders void any contract that seeks to restrain employment, reflects California’s strong public policy in favor of employee mobility. However, New Jersey does not have either a statutory or common law equivalent to CBPC § 16600. The court therefore concluded that New Jersey and California differed in the law relevant to the instant case, and both states had an interest in applying their own laws to the case.¹⁵

In applying the third step of this test, the court concluded that neither jurisdiction’s interest in protecting trade secrets would be impaired by litigating in the other jurisdiction since both jurisdictions support public policy in favor of trade secret protection. However, the court found that litigation in New Jersey would impair California’s public policy in favor of employee mobility. Therefore, the court applied California law to the action.¹⁶

B. Analysis of Trade Secrets Misappropriation Claim

To state a claim for misappropriation of trade secrets, a plaintiff must prove the following elements: 1) existence of subject matter capable of protection as a trade secret; 2) the secret was disclosed to the defendant, where the disclosee was under legal or contractual obligation not to use or disclose the secret to the plaintiff’s detriment; and 3) if the defendant is an employee or former employee of the plaintiff, the plaintiff’s interest in protecting its secret must outweigh the employee’s interest in using his knowledge to gain employment elsewhere.¹⁷

Here, the court found that Plaintiff failed to state a claim for misappropriation. Defendant Broadcom argued that Plaintiff did not meet the second element because it

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.* at *5.

failed to show that Defendant Broadcom actually “used or disclosed Plaintiff’s trade secrets,” and the court concurred.¹⁸

The court also rejected Plaintiff’s argument that the inevitable disclosure doctrine supported a claim for misappropriation. Citing *Danjaq, LLC v. Sony Corporation*, the court stated that, “[t]he Central District of California has considered and rejected the inevitable disclosure doctrine.”¹⁹ In *Danjaq*, the court stated 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.”²⁰ The court further cited the Northern District of California in *Bayer Corporation v. Roche Molecular Systems, Inc.*, holding that California trade secrets law does not recognize the doctrine of inevitable disclosure, which runs counter to the strong public policy in California favoring employee mobility.²¹

Notwithstanding the Central District’s rejection of the inevitable disclosure doctrine, the court stated that “inevitable disclosure” by Defendant O’Neill does not implicate Defendant Broadcom. Here, the court implied that a former employer could use the doctrine in an action against a former employee but not against her new employer.²² The court further rejected Plaintiff’s claim on the grounds that “Plaintiff has not alleged that either Defendants [sic] Broadcom or O’Neill will use or disclose Plaintiff’s trade secrets.”²³ The court therefore seems to distinguish an actual threat of

¹⁷ *Id.* (citing *Cal Francisco Inv. Corp. v. Vrionis*, 92 Cal. Rptr. 201 (1971)).

¹⁸ *Id.* at *6.

¹⁹ *Id.*

²⁰ *Danjaq, LLC v. Sony Corporation*, No. CV 97-8414-ER, 1999 WL 317629 (C.D. Cal. Mar. 11, 1999).

²¹ *Globespan*, 2001 WL 801609, at *6 (citing *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111, 1120 (1999)).

²² *Id.*

²³ *Id.*

use or disclosure from “inevitable disclosure,” wherein the former but not the latter may support a misappropriations claim.

By this analysis, the court granted Defendant Broadcom’s motion to dismiss Plaintiff Globespan’s claims against Broadcom of trade secret misappropriation and unfair competition.