

GLOBESPAN, INC. V. O'NEILL

I. INTRODUCTION

An employer may enjoin an employee from working for a competitor by invoking the doctrine of inevitable disclosure. This doctrine stands for the presumption that an employee cannot help but use or disclose her former employer's trade secrets in the performance of a new position having similar responsibilities. Because of its apparent contradiction with public policy favoring employee mobility, the doctrine has not gained widespread acceptance among state and federal jurisdictions. Most jurisdictions apply the doctrine sparingly and with considerable circumspection.

Following precedent in the Central and Northern Districts of California, the Central District Court for the District of California in *Globespan v. O'Neill* rejected the doctrine as counter to California Business and Professions Code Section 16600, which prohibits covenants not to compete. Although not yet subject to appellate review, *Globespan* and its predecessors indicate that California courts have adopted a per se rule barring the doctrine in actions for trade secret misappropriation. However, rejection of the doctrine as counter to public policy was improper, based on judicial interpretation of section 16600. The doctrine should remain available as a tool for employers in California to protect their trade secrets. However, the courts should apply the doctrine rarely and only when the evidence overwhelmingly supports an allegation of trade secret misappropriation.

II. LEGAL BACKGROUND

A. Introduction

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.² 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.³ Trade secret laws find further support under theories of fairness and morality: it is simply wrong to steal the property of another or the fruits of his labor.⁴ However, overbroad application of trade secret laws can interfere with competition and employee mobility.⁵ Thus, trade secret laws must strike a careful balance between protecting business' proprietary information and promoting competition through employee mobility.⁶

Trade secret doctrine, which originated as a common law tort, first emerged as a unified body of law in the Restatement (First) of Torts and later in The Uniform Trade Secrets Act (UTSA).⁷ Forty-two states, including California, have adopted the UTSA or a modified version of the UTSA.⁸ The scope of subject matter protectable as a trade secret is broadly defined under the UTSA as any "information, including a formula, pattern, compilation, program, device,

¹ See generally ROBERT MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 31-122 (2d ed. 2000).

² RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939);

³ Susan Street Whaley, Comment, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, 816 (1999).

⁴ JOHN LOCKE, *TWO TREATISES OF GOVERNMENT* [need pincite] (Peter Laslett ed., Cambridge Univ. Press 1988) (1690); see also MERGES ET AL., *supra* note 1, at 43.

⁵ Whaley, *supra* note 2, at 840-41.

⁶ *Id.*

⁷ RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939); UNIF. TRADE SECRETS ACT, 14 U.L.A. 402-03 (1985 & Supp. 1990); 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.")

⁸ 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).

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.”⁹ California’s version of the UTSA (“CTSA”) eliminates the “readily ascertainable” language in clause (i), thereby providing even broader protection.¹⁰ The UTSA further provides that “[a]ctual or threatened misappropriation [of a trade secret] may be enjoined.”¹¹ The CTSA has adopted this provision as section 3426.2(a).¹²

For a finding of trade secret misappropriation, California courts require that 1) the subject matter for which the plaintiff seeks protection is, in fact, a trade secret; 2) the defendant used, disclosed, or acquired knowledge of the trade secret, knowing the secret was acquired by improper means or in violation of a duty of confidentiality; and 3) public policy favoring protection of the trade secret outweighs the interest of the employee in using her knowledge to support herself in other employment.¹³

B. The Problem of the Departing Employee

The departing employee presents a potentially difficult problem for employers seeking to protect their trade secrets.¹⁴ Typically, an employee acquires knowledge of her employer’s trade secrets over the course of her employment, especially if she holds a position in management or

⁹ UNIF. TRADE SECRETS ACT, § 1(4).

¹⁰ CAL. CIV. CODE § 3426.1(d). ([parenthetically explain why omission of this clause creates broader ts law])

¹¹ UNIF. TRADE SECRETS ACT, § 2(a).

¹² CAL. CIV. CODE § 3426.2(a).

¹³ See *Globespan, Inc. v. O’Neill*, No. CV 01-04350 LGB, 2001 WL 801609, at *5 (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); see CAL. CIV. CODE § 3426.1(b).

¹⁴ See generally *MERGES ET AL.*, *supra* note 1, at 84-90.

technology development.¹⁵ When the employee departs, she may take with her the general skills and knowledge acquired during her employment,¹⁶ but she may not take away her employer's trade secrets.¹⁷ An employer may attempt to prevent the employee's disclosure of trade secret information by enforcing a non-competition agreement or by invoking the doctrine of inevitable disclosure.¹⁸ In some cases, the employer may elect to pursue both strategies.¹⁹

A non-competition agreement, also known as a "restrictive covenant" or a "covenant not to compete," bars an employee from working for a competitor, generally for a specified period of time following her departure.²⁰ The employee often executes the non-competition agreement at the time of hiring, and in many cases, the employer conditions the offer of employment upon such execution.²¹ Because non-competition agreements arise during the hiring process, they are viewed as "bargained for" agreements wherein the employee receives valuable consideration in exchange for her promise not to compete.²² In reality, however, the relative bargaining positions of the employer and the prospective employee undermine the latter's ability to demand consideration.²³

Additionally, an employer may invoke the "doctrine of inevitable disclosure" to obtain injunction relief when an employee leaves to work for a competitor.²⁴ The doctrine is, in its

¹⁵ [*Id.*]

¹⁶ [Official Aviation Guide Co. v. Am. Aviation Assocs., 150 F.2d 173, 178 (7th Cir. 1945) - can probably cite to a better source than this]

¹⁷ [need cite]

¹⁸ [need cite]

¹⁹ See e.g. DoubleClick, Inc. v. Henderson, 1997 WL 731413 (N.Y. Sup. Ct. Nov. 7, 1997) (attempting to both enforce non-competition agreement against one of the defendants and obtain injunctive relief by invoking the doctrine of inevitable disclosure).

²⁰ Whaley, *supra* note 2, at 817.

²¹ *Id.*

²² *Id.* at 841.

²³ Cf. Latona v. Aetna U.S. Healthcare, Inc., 82 F. Supp. 2d 1089, 1098 (C.D. Cal. 1999) (arguing that an employee will comply with a non-competition agreement even if she believes it to be unenforceable where the employer is large and powerful).

²⁴ Whaley, *supra* note 2, at 819.

application, an evidentiary presumption based on the premise 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.²⁵ Based on the weight of this evidence, a court may decide to enjoin an employee from assuming a position with her former employer's competitor or to limit the scope of her duties therein.²⁶ In principle, the former employer need not show actual misappropriation or even intent to misappropriate under this theory.²⁷ Like non-competition agreements, the doctrine of inevitable disclosure reveals the tension between trade secret protection and employee mobility.

The Seventh Circuit upheld the doctrine of inevitable disclosure in the leading case of *PepsiCo v. Redmond*.²⁸ Here, PepsiCo sought to enjoin defendant Redmond, a former employee, from working for its direct competitor, Quaker.²⁹ As a high-level executive, Redmond managed PepsiCo's entire business unit in California.³⁰ 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.³¹ In 1994, Redmond left PepsiCo to accept a nearly identical position at Quaker, where he would implement marketing and distribution strategies for competing beverages.³² 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

²⁵ *Id.*; James Pooley, *The Sky Is Not Falling: When It Comes to Trade Secrets and Employee Mobility, a Little 'Inevitable Disclosure' Is Not Such a Bad Thing*, THE RECORDER, Nov. 1998, at S31; Michael Starr, *The Two Faces of Inevitable Disclosure*, MONDAQ BUS. BRIEFING, May 29, 2001, available at 2001 WL 8986722.

²⁶ [*PepsiCo* and other cases (complete bar to employment with competitor); *FMC* and *Lyon* (employee allowed to assume position at new employer but court limited scope of duties).]

²⁷ 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).

²⁸ *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

²⁹ *Id.*

³⁰ *Id.* at 1264.

³¹ *Id.* at 1266.

³² *Id.* at 1267.

secrets.”³³ In reaching its decision, the court also relied heavily on Redmond’s lack of candor and “out and out lies” to PepsiCo regarding his negotiations with Quaker and his decision to accept their offer.³⁴ Subsequently, the court affirmed the district court’s order prohibiting Redmond from working for Quaker for six months and permanently enjoining him from disclosing confidential information.³⁵

Since *PepsiCo*, several state and federal district courts have applied the doctrine of inevitable disclosure in granting injunctions against departing employees.³⁶ 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.³⁷ Some commentators interpret these decisions as limiting the doctrine’s applicability to situations where there exists strong evidence of a “threatened” misappropriation.³⁸ Otherwise stated, 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.³⁹

³³ *Id.* at 1269.

³⁴ *Id.* at 1267, 1270.

³⁵ *Id.* at 1272.

³⁶ See e.g. *DoubleClick, Inc v. Henderson*, 1997 WL 731413; *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).

³⁷ [need to cite the cases in note 37 with appropriate pincites]

³⁸ *Miller*, *supra* note 17, at ¶ 49; *Starr*, *supra* note 25.

³⁹ See *Int’l Bus. Machine Corp. v. Seagate Tech. Inc.*, 941 F. Supp. 98, 101 (D. Minn. 1992).

C. California Public Policy Favors Employee Mobility

California Business and Profession Code Section 16600 reflects the state's strong public policy in favor of employee mobility.⁴⁰ Section 16600 provides that "[e]very contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void."⁴¹ Under this statute, California courts have consistently rejected non-competition agreements as counter to public policy favoring employee mobility,⁴² unlike courts in most other states, which apply a "rule of reason" in determining whether to uphold a non-competition agreement.⁴³

Several commentators have attributed the success of Silicon Valley, California's technology center, to the mobility of its employees⁴⁴ and particularly to section 16600.⁴⁵ Lacking the restraints of non-competition agreements, the "job-hopping" culture of Silicon Valley has permitted the occurrence of knowledge "spill-overs" between established technology firms and start-ups.⁴⁶ Although such spill-overs may put trade secrets at risk, the benefits appear to have exceeded the costs, as demonstrated by the rapid expansion and sustained growth of Silicon Valley compared to other technology centers in the United States.⁴⁷

⁴⁰ See *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881, 900-01 (Ct. App. 1998).

⁴¹ CAL. BUS. PROF. CODE § 16600 (West 2001).

⁴² [need cite]

⁴³ *Scott v. Snelling & Snelling, Inc.*, 732 F. Supp. 1034, 1042 (N.D.Cal. 1990).

⁴⁴ See generally ANNALEE SAXENIAN, *REGIONAL ADVANTAGE: CULTURE AND COMPETITION IN SILICON VALLEY AND ROUTE 128* (1994).

⁴⁵ Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not To Compete*, 74 N.Y.U. L. REV. 575 (1999).

⁴⁶ *Id.* at 579, 585-86.

⁴⁷ *Id.* at 609.

D. California District 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 applied to cases in California and the Ninth Circuit.⁴⁸ 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.⁴⁹ 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.⁵⁰ 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.⁵¹ On this basis, the court issued a preliminary injunction blocking the former AMD employees from working on certain projects for Hyundai.⁵² The case later settled.⁵³

In *Electro Optical Industries, Inc. v. White*, the Court of Appeal stated that “although no California court has yet adopted it, the inevitable disclosure doctrine is rooted in common sense and calls for a fact specific inquiry. We adopt the rule here.”⁵⁴ 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,⁵⁵ commentators

⁴⁸ 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.

⁴⁹ First Amended Complaint, *Advanced Micro Devices, Inc. v. Hyundai Elecs. Am.*, Santa Clara Superior Ct. No. CV752679 (Oct. 24, 1995).

⁵⁰ See Emmert, *supra* note 7, at 1194.

⁵¹ *Id.* at 1195.

⁵² *Id.*

⁵³ [need cite]

⁵⁴ 90 Cal. Rptr. 2d 680, 684 (Ct. App. 1999), *ordered not officially published* (April 12, 2000).

⁵⁵ *Id.* at [need pin]

viewed this decision as an affirmative adoption of the doctrine of inevitable disclosure by California.⁵⁶ However, the California Supreme Court ordered depublication of this decision.⁵⁷

Recent cases from California federal district courts have summarily 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.”⁵⁸ In *Computer Sciences Corporation v. Computer Sciences International, Inc.*, the plaintiffs did not invoke the doctrine to support a claim for injunctive relief but instead attempted to use the doctrine as evidence of actual misappropriation.⁵⁹ In granting summary judgment for the defendants, the court held that a plaintiff cannot rely on the doctrine to establish actual misappropriation.⁶⁰ Otherwise stated, the plaintiff may not use the doctrine to fill in gaps in the evidentiary record when actual misappropriation is alleged.⁶¹

In *Bayer v. Roche Molecular Systems, Inc.*, the District Court for the Northern District of California 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 employee mobility.”⁶² The court found that the doctrine of inevitable disclosure creates an ex poste facto covenant not to compete, and as such, the doctrine is properly rejected under section 16600.⁶³ The court further noted that the doctrine “does not supply the proof needed to .

⁵⁶ See Weiss & Lincoln, *supra* note 48.

⁵⁷ 90 Cal. Rptr. 2d 680 (Ct. App. 1999), *ordered not officially published* (April 12, 2000).

⁵⁸ *Danjaq, LLC v. Sony Corp.*, No. CV 97-8414-ER, 1999 WL 317629, at *1 n.1 (C.D. Cal. Mar. 11, 1999)

⁵⁹ *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).

⁶⁰ See *id.*

⁶¹ See *id.* at *16.

⁶² 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999).

⁶³ *Id.* at 1119.

. . . raise serious questions about actual use or threat [of misappropriation],”⁶⁴ indicating that a finding of inevitable disclosure would never suffice to support a plaintiff’s claim of misappropriation.

III. CASE SUMMARY

A. 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.⁶⁵ O’Neill left Globespan to work at defendant Broadcom, a corporation located in California and one of Globespan’s direct competitors.⁶⁶ Defendants O’Neill and Broadcom first filed suit seeking declaratory relief of non-misappropriation of trade secrets and alleging unfair competition.⁶⁷ Globespan later filed suit in New Jersey state court alleging, *inter alia*, misappropriation of trade secrets.⁶⁸ The defendants removed the action from New Jersey state court to New Jersey federal district court on the grounds of diversity of citizenship.⁶⁹ The New Jersey federal district court transferred the action to the Central District of California for consolidation with Defendants’ first filed suit.⁷⁰

Globespan’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.⁷¹

Globespan further moved to enjoin O’Neill from entering into an employment contract with

⁶⁴ *Id.* at 1112.

⁶⁵ Globespan, Inc. v. O’Neill, No. CV 01-04350 LGB, 2001 WL 801609, at *1 (C.D. Cal. July 12, 2001).

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

Broadcom for at least one year.⁷² The court’s opinion addressed 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.⁷³

B. The Court’s Analysis of Plaintiff’s Trade Secrets Misappropriations Claim

Relying on the decisions in *Bayer*, *Computer Sciences*, and *Danjaq*, the court rejected Globespan’s argument that that the inevitable disclosure doctrine, on its own, supports a claim for trade secret misappropriation. In a brief and conclusory opinion, the court stated that “[t]he Central District of California [in *Computer Sciences* and *Danjaq*] has considered and rejected the inevitable disclosure doctrine.”⁷⁴ Citing *Bayer*, the court further stated 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.⁷⁵ Therefore, the doctrine of inevitable disclosure failed to prove that defendant Broadcom “used or disclosed Plaintiff’s trade secrets.”⁷⁶

The court also rejected Globespan’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.”⁷⁷ By this statement, the court acknowledges that a plaintiff may bring a valid claim under section 3426.2(a), which allows injunctive relief for “threatened misappropriation.” However, the court’s holding, like that in *Bayer*, implies that the doctrine of inevitable disclosure does not meet the evidentiary requirements for a claim of “threatened misappropriation.”

⁷² *Id.* at 2.

⁷³ *Id.* at *7.

⁷⁴ *Id.* at *6.

⁷⁵ *Id.*

⁷⁶ *Id.*

⁷⁷ *Id.* (emphasis added).

IV. ANALYSIS

A. The Doctrine Merits Consideration Under a Judicially Created Exception to Section 16600

Section 16600 does not apply to covenants that protect trade secrets.

In *Globespan*, the court rejected the doctrine of inevitable disclosure as counter to California's public policy favoring employee mobility.⁷⁸ In reaching this conclusion, the court relied on the holding in *Bayer* that application of the doctrine creates an ex post facto or implied covenant not to compete, which the court would otherwise find invalid under section 16600.⁷⁹ This conclusion seems logical. If disclosure is truly inevitable, then the only effective remedy is injunctive relief prohibiting the employee from assuming her new position or restricting the scope of the duties she may perform therein. An alternative form of relief, for example, allowing the employee to assume her new position but enjoining the use or disclosure of the trade secret, would prove ineffective because disclosure is outside the power of the employee to consciously prevent or control.⁸⁰ Therefore, application of the doctrine of inevitable disclosure requires barring the employee from pursuing her choice of employment, an outcome that appears to directly contradict the policy goals of section 16600.

However, judicial interpretation of section 16600 suggests that the doctrine of inevitable disclosure may survive judicial scrutiny. Although California courts have consistently rejected covenants not to compete under section 16600, a judicially created exception to section 16600 allows enforcement of covenants not to compete where necessary to protect an employer's trade secrets.⁸¹ The California Supreme Court in *Muggill v. The Reuben H. Donnelly Corporation*⁸²

⁷⁸ *See Id.*

⁷⁹ *Id.*

⁸⁰ *See PepsiCo*, 54 F.3d at 1269.

⁸¹ *Gordon v. Landau*, 321 P.2d 456 (Cal. 1958); *Muggill v. Reuben H. Donnelly Corp.*, 42 Cal. Rptr. 107 (1965); *Scott v. Snelling and Snelling, Inc.*, 732 F. Supp. 1034 (N.D. Cal. 1990); *Roll Systems, Inc. v. Shupe*, No. 97-

stated that “[t]his section [section 16600] invalidates provisions in employment contracts prohibiting an employee from working for a competitor after completion of his employment or imposing a penalty if he does so, unless they are necessary to protect the employer’s trade secrets.”⁸³ In the recent case of *Scott v. Snelling and Snelling, Inc.*, the plaintiff relied on *Hollingsworth Solderless Terminal v. Turley*, concluding that “California courts recognize a judicially created exception to section 16600 and will enforce a restrictive covenant” if a former employee uses a former employer’s trade secrets or otherwise commits unfair competition.⁸⁴ The District Court for the Northern District of California concurred that this conclusion “appears to remain a proper statement of the law in California.”⁸⁵ Although California courts have consistently recognized this judicially created exception, they have yet to apply it.⁸⁶

If the doctrine of inevitable disclosure creates an implied covenant not to compete that falls under the purview of section 16600, as the court concluded in *Globespan* and *Bayer*, then the court should have at least explored the possibility that the judicially created exception to section 16600 applies. The court, therefore, should not have summarily rejected the doctrine as counter to section 16600 but instead should have considered the evidence presented under the rubric of the doctrine to determine if trade secrets were truly at stake. By this analysis, therefore, summary judgment in favor of the defendant in *Globespan* was improper where there remained a

12689-GAO, 1998 U.S. Dist. LEXIS 3142 (D. Ma. Jan. 22, 1998) *applying California law* [need pincites for all of these]

⁸² *Muggill*, 42 Cal. Rptr. at 109 (internal citations omitted).

⁸³ *Id.* (internal citations omitted).

⁸⁴ *Scott*, 732 F. Supp. at 1043, citing *Hollingsworth Solderless Terminal v. Turley* 622 F.2d 1324, 1338 (9th Cir. 1980); *See also* *American Paper & Packaging Products, Inc. v. Kirgan*, 183 Cal.Rptr. 713 (1986); *Moss, Adams & Co. v. Shilling*, 224 Cal.Rptr. 456 (1986).

⁸⁵ *Id.*

⁸⁶ *See* *Gilson*, *supra* note 45, at 607-08; *see e.g.*, *Scott*, 732 F. Supp. at 1044-45 (finding that plaintiffs failure to prove the existence of trade secrets precluded application of the exception to section 16600)

question of fact as to whether the employers possessed trade secrets and if so, whether these trade secrets were at risk.

The judicially created exception to section 16600 is consistent with public policy.

The judicially created “trade secret” exception to section 16600 and its application to the doctrine of inevitable disclosure strike an appropriate balance between trade secret protection and the policy interests underlying section 16600. This exception is not preempted by any indication in the legislative or judicial history of section 16600 that an employee’s interest in freely pursuing her livelihood should supercede an employer’s interest in protecting her trade secrets.

The primary purpose of section 16600, originally adopted as section 1673 of the California Civil Code in 1872, was the invalidation of contracts that restrained trade by restricting competition.⁸⁷ In fact, the cases cited in the comments to section 1673 did not contemplate either post-employment restrictive covenants or trade secrets.⁸⁸ After the turn of the century, cases arose under section 1673 where employees attempted to compete with their former employers notwithstanding the presence of restrictive covenants.⁸⁹ In these cases, the employees took with them only general skills and knowledge, not their employee’s trade secrets.⁹⁰ Today, many employers, primarily those outside of California, similarly require restrictive covenants from employees at all levels, regardless of whether that employee will become aware of trade secrets.⁹¹

⁸⁷ Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not To Compete*, 74 N.Y.U. L. REV. 575, 618-19, n.152 (1999).

⁸⁸ *Id.* [need these cases]

⁸⁹ [need to get the following cases: *Chamberlain v. Augustine*, 156 P. 479; *Merchants v. Sterling*, 57 P. 468; *Vulcan Powder v. Hercules Powder*, 31 P. 581]; *Davis v. Jointless Fire Brick Co.*, 300 F. 1 (9th Cir. 1924)

⁹⁰ *Id.* at *2.

⁹¹ Leslie Miller, Associated Press, *Noncompete Clauses Hurt Job Hunters; Companies Protect Corporate Secrets from Rival Firms* (Sept. 11, 2001) (“Companies that once limited noncompete agreements to top executives . . . are

The primary purpose of these broad-reaching covenants is probably not to protect trade secrets but, more likely, to foreclose the availability of a generally skilled workforce to competitive businesses. These types of covenants, which are those presumably contemplated by § 16600, are correctly and summarily rejected under section 16600 as anti-competitive and anti-employee. On the other hand, covenants that restrict employee mobility, both *ex ante* and *ex poste*, for the purpose of protecting trade secrets cannot and should not be viewed through the same critical lens of section 16600.

The California Court of Appeals' interpretation of the policy underlying section 16600 in *Diodes, Inc. v. Franzen*⁹² lends further support to this assertion. The court stated that “[t]he interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers, *where neither the employee nor his new employer has committed any illegal act accompanying the employment change.*”⁹³ Therefore, a restraint on employee mobility to prevent an illegal act, such as trade secret misappropriation, would be a reasonable and appropriate measure, notwithstanding section 16600.

B. Evidence of Inevitable Disclosure Must Be “Bootstrapped” by Additional Case-Specific Factors

Summary judgment based solely on the grounds that the doctrine of inevitable disclosure conflicts with section 16600 is a conclusory and improper outcome. However, the question remains as to whether evidence of “inevitable disclosure,” absent evidence of actual

now asking rank-and-file workers to sign them.”), *available at* 2001 WL 3769828; *NBC Today: The Prevalence Today of Noncompete Agreements with Employers and How They Affect Employees' Futures* (NBC television broadcast, July 24, 2001) (reporting on the noncompetition agreement enforced against a mattress salesman: “[i]t’s a growing trend in American business. As corporations try to protect their competitive edge, noncompetes are no longer just for top level executives.”).

⁹² *Diodes, Inc. v. Franzen*, 67 Cal Rptr. 19 (1968)

⁹³ *Id.* [need pincite] (emphasis added).

misappropriation or intent to misappropriate, is *ever* sufficient to support a claim of trade secret misappropriation.

To argue that evidence of inevitable disclosure can never support a misappropriations claim is to rule out application of the doctrine under any circumstance. The district courts' holdings in *Bayer* and *Globespan* adopt this approach.⁹⁴ Although this approach eliminates the current uncertainty surrounding the doctrine by providing a bright-line rule against it, barring the availability of the doctrine without exception may prove unreasonable given the irreparable consequences of trade secret misappropriation. In most cases, there exists no adequate remedy for loss of a trade secret: "A trade secret, once lost, is lost forever; its loss cannot be measured in money damages."⁹⁵ Thus, "preventing the disclosure of trade secrets is far preferable to suing for misappropriation after they have already been disclosed."⁹⁶ At the very least, therefore, the doctrine should remain available as a means for preventing the potentially irreversible damage of trade secret misappropriation before it occurs.

However, there exists a serious potential for abuse of the doctrine if applied in an overbroad manner. For example, overzealous employers may use the doctrine to bring suits that lack merit in an attempt to intimidate or even cripple the competition, particularly where the competition is a resource-limited start-up.⁹⁷ Strategic use of the doctrine in this manner appears to be particularly prevalent in the high-tech industry, where employers often take a highly

⁹⁴ [need cite]

⁹⁵ *Earthweb, Inc. v. Schlack*, F. Supp. 2d 299, 308 (S.D.N.Y. 1999).

⁹⁶ *MERGES ET AL.*, *supra* note 1, at 92.

⁹⁷ See Renee Deger, *Clash: Trade Secrets, Workers Rights, but High-Tech Companies Aren't Rushing To Test "Inevitable Disclosure,"* THE RECORDER, June 18, 1998, at 1 (reporting that Silicon Graphics' dropped its suit against former employees who started their own company, possibly because the suit lacked merit); see Vikas Bajaj, *Alcatel Guards Its Trade Secrets: Lashed by Industry Critics, VP Makes No Apologies for Lawsuits*, DALLAS MORNING NEWS, Sept. 3, 2000, at 1H, available at 2000 WL 25850899 (reporting that general counsel's policy of "aggressively suing competitors" for alleged trade secret misappropriation has brought "hundreds of millions in settlements and judgments into Alcatel coffers" and that one critic contends that "they [Alcatel] don't seem to be able to differentiate between where they have merit and don't have merit.").

personal and emotional interest in protecting their trade secrets.⁹⁸ Employees in the midst of such lawsuits experience feelings of persecution and oppression.⁹⁹ Thus, if not rationally applied and appropriately limited, the doctrine of inevitable disclosure could have a chilling effect on entrepreneurship, innovation, and employee productivity.¹⁰⁰

Therefore, the courts must view evidence presented under the rubric of the inevitable disclosure doctrine with an extremely critical eye. The District Court for the Southern District of New York presented a useful framework for applying the doctrine:

“[I]n its purest form, the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory. *Absent evidence of actual misappropriation by an employee, the doctrine should be applied in only the rarest of cases.* Factors to consider in weighing the appropriateness of granting injunctive relief are whether: (1) the employers in question are direct competitors. . . (2) the employee’s new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; and (3) the trade secrets at issue are highly valuable to both employers. Other case-specific factors such as the nature of the industry and trade secrets should be considered as well.”¹⁰¹

The three factors enumerated above form the core of an inevitable disclosure case. However, these factors alone should not form the basis for injunctive relief. In the discussion that follows, this Note seeks to clarify and propose additional factors that would tip the balance either in favor of or against the plaintiff, once she has shown that the “core” factors weigh in favor of proving inevitable disclosure. These additional factors include the dishonesty or bad faith motive of the employee, the nature of the trade secrets, and the nature of the industry.

⁹⁸ Deger, *supra* note 97 (“Trade secret cases are very emotional and tough to settle because each side believes that only its cause is just and that the other party has ulterior motives.”); see Joseph A. Slobodzian, *AT&T Sued over Departed VP: Is the Issue Trade Secrets, or Jealousy, in Case Involving Qwest?*, NAT’L L.J., August 21, 2000, at B1; see Gilson, *supra* at 629, n.70 (describing how the CEO of Informix confronted the CEO of Oracle at his home, asking Oracle to return the eleven “runaway” employees who had recently left Informix to join Oracle). [should get the primary source for this: SF Examiner, Mar. 9, 1997, B7]

⁹⁹ See Bajaj, *supra* note 97.

¹⁰⁰ *Id.*

¹⁰¹ *Earthweb*, F. Supp. 2d at 310 (emphasis added).

Dishonesty/lack of candor as evidence of intent to misappropriate

In *PepsiCo*, the court held that “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.”¹⁰² However, the court in *PepsiCo* also conceded that “the mere fact that a person assumed a similar position at a competitor does not, without more, make it inevitable that he will use or disclose...trade secret information.”¹⁰³ The deceptive statements and lack of candor displayed by the defendants contributed significantly to the court’s decision to grant injunctive relief.¹⁰⁴ The court based its decision, therefore, as much on its intuition that Redmond could not be trusted as on the inevitability of disclosure.

Courts in other jurisdictions have followed suit, generally requiring a showing of dishonesty or bad faith on the part of the departing employee or the new employer.¹⁰⁵ As in *PepsiCo*, the court found in *Merck & Co. v. Lyon*¹⁰⁶ that the defendant Lyon “was not entirely forthright in his representations to plaintiffs regarding his employment with [defendant] Glaxo.”¹⁰⁷ The court subsequently crafted a narrow injunction that permitted Lyon to assume employment at Glaxo while preventing him from working on only one specific product line.¹⁰⁸

Similarly, in *DoubleClick v. Henderson*,¹⁰⁹ the departing employees left evidence on their laptops suggesting that they intended to incorporate their employer’s confidential information into their own start-up’s business plan.¹¹⁰ The court further remarked upon the employees’

¹⁰² *PepsiCo*, 54 F.3d at 1269.

¹⁰³ *Id.*

¹⁰⁴ *Id.* at 1271.

¹⁰⁵ [Miller law review article; see notes 36 and 37]

¹⁰⁶ *Merck & Co. v. Lyon*, 941 F. Supp. 1443 (M.D. N.Cal. 1996).

¹⁰⁷ *Id.* at 1461.

¹⁰⁸ *Id.* at 1464-65.

¹⁰⁹ *DoubleClick, Inc. v. Henderson*, 1997 WL 731413 (N.Y. Sup. Ct. Nov. 7, 1997)

¹¹⁰ *Id.* at *5, n.3.

“cavalier attitude toward their duties to their former employer.”¹¹¹ The court subsequently issued a six month preliminary injunction blocking the employees from competing with their former employer.¹¹²

Dishonesty on the part of the employee or her new employer speaks to the issue of intent. It provides circumstantial evidence of the parties’ willingness to misappropriate trade secrets and their efforts to conceal as much. Similarly, the degree to which the new employer pursued or heavily recruited the employee speaks to the issue of whether the new employer recruited the employee for her knowledge of trade secrets instead of for her general skills and experience.¹¹³ Conversely, good faith efforts on the part of the employee and her new employer to prevent disclosure of trade secrets should weigh in the favor of the employee.¹¹⁴

Nature of the trade secret and the industry

a. Technological information

Trade secrets, in the form of technological information, lie along a spectrum. At one end of the spectrum lies the “classic” trade secret case where an employer, generally an industry leader, has developed a pioneering technological advance over many years and at great expense.¹¹⁵ An employee then leaves to join a new employer that has previously tried and failed to develop the same technology or otherwise has no previous history of independent development of this technology.¹¹⁶ In this scenario, the employer should be entitled to broad trade secret protection and, accordingly, the court should give substantial weight to evidence of

¹¹¹ *Id.* at *6.

¹¹² *Id.* at *8.

¹¹³ [describe how this was demonstrated in *PepsiCo* and *FMC v. Varco* but not in *Merck (PepsiCo 1461 and FMC?)*]

¹¹⁴ *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460-61 (M.D. N.Cal. 1996).

¹¹⁵ 1 MILGRIM § 5.02[3][d]

¹¹⁶ *Id.*

inevitable disclosure.¹¹⁷ This approach is modeled after the broad protection that is often accorded to “pioneer” patents.¹¹⁸

At the other end of the spectrum lie trade secrets developed in a high-tech industry where innovations occur rapidly and mainly through improvements on pre-existing technologies. In this scenario, the employer should be entitled only to narrow trade secret protection.¹¹⁹ Absent evidence of actual misappropriation or intent to misappropriate, inevitable disclosure should not provide a basis for injunctive relief for several reasons. First, the line between general knowledge and trade secrets is blurred in “improvement” technologies.¹²⁰ Therefore, the court should give the employee the benefit of the doubt. Second, courts should adopt a legal framework that encourages the “knowledge spill-over” viewed by some commentators as key to innovation.¹²¹ This approach is modeled after the narrow protection that is often accorded to “improvement” patents.¹²²

In a rapidly evolving technology-based environment, narrow protection for trade secrets (and increased employee mobility) may appear to disadvantage those employers who lose employees with knowledge of trade secrets. However, the effect is reciprocal: an employer who is disadvantaged by the loss of an employee is just as likely to gain an employee with innovative knowledge.¹²³ Therefore, the proper inquiry is as follows: is the trade secret so pioneering and so valuable that possible loss of the employee (and the secret) is highly unlikely to be offset by the future gain of an employee with knowledge that can spur further innovation? If not, a

¹¹⁷ *Id.*

¹¹⁸ MERGES ET AL, *supra* note 1 at [need pincite to “pioneer patents”].

¹¹⁹ *See Intel Corp. v. Broadcom Corp.*, No. CV 788310, 2000 WL 33260713 (June 20, 2000) (denying injunction against employees who left chipmaker for another chipmaker)

¹²⁰ Gilson, *supra* note 45, at 599.

¹²¹ *Id.* at 579.

¹²² MERGES ET AL, *supra* note 1 at [need pincite to “improvement patents”].

¹²³ *See id.* at 609.

finding of inevitable disclosure should not be dispositive. Instead, evidence of actual misappropriation or intent to misappropriate should be required.

b. Business information

Business information, such as business plans, pricing strategies, marketing strategies, and the like, should generally receive even narrower trade secret protection compared with technology-based trade secrets.¹²⁴ This approach is recommended due to the difficulty in valuing business information and in establishing that such information is, in fact, a trade secret.¹²⁵ Although businesses generally do keep secret the specifics of their pricing and marketing plans, these plans are of the type that all businesses research and develop.¹²⁶ Therefore, a business may have success in independently developing and anticipating its competitor's next move using the same marketing research tools and general business acumen that its competitor would use. Furthermore, the value of such plans is difficult to ascertain, given that they are often changed and updated based on their relative market success upon implementation.¹²⁷

V. CONCLUSION

In *Globespan*, the court's rejection of the doctrine of inevitable disclosure under California Business and Professions Code Section 16600 was improper. Because the doctrine does not conflict with California law, a court should not summarily dismiss a claim of trade secret misappropriation based on inevitable disclosure. Instead, a court should carefully weigh the facts that a plaintiff presents under the purview of the doctrine to determine if the threat of

¹²⁴ See 1 MILGRIM § 5.02[3][d] n.38.

¹²⁵ *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1461 (M.D. N.Cal. 1996) [(need parenthetical)].

¹²⁶ *Id.*

¹²⁷ *Id.* at 1457.

misappropriation and its possible consequences merit injunctive relief. However, a court should subject such claims to strict judicial scrutiny, thereby maintaining a balance between trade secret protection and employee mobility that, in all but the most extreme cases, favors the employee.