Danielle Pasqualone Law & Tech Writing Seminar
Outline October 1, 2001

I. Introduction: Rejection of the Doctrine of Inevitable Disclosure in *Globespan v. O'Neill*
   A. Brief summary of the doctrine of inevitable disclosure (DID)
   B. State and federal jurisdictions have not applied this doctrine uniformly
   C. *Globespan v. O'Neill*: Following precedent in the Central and Northern Districts of California, the Central District of California rejects the DID as counter to public policy
   D. Although not yet subject to appellate review, *Globespan* and its predecessors indicate that California courts have adopted a *per se* rule barring the use of the doctrine in actions for trade secret misappropriation
   E. Conclusion: correct outcome (rejection of the doctrine), wrong reason (§ 16600/employee mobility)

II. Legal Background
   A. Trade Secrets Law, Generally
      1. Policy reasons for trade secrets (ts) law
         a) incentive theory: ts laws spur innovation
         b) fairness/morality: ts laws punish those who steal the ideas of others
         c) ts laws may interfere with competition and employee mobility if applied too broadly
         d) ts laws must strike a balancing act between protecting proprietary information and permitting employee mobility
      2. Trade secret law
         a) Attempts to unify ts law among the states
            (1) Restatement (First) of Torts
            (2) Uniform Trade Secrets Act (UTSA)
         b) Statutory law: Cal. Civ. Code § 3426 adopted the UTSA:
            (1) Elements of a claim for ts misappropriation under § 3426 (Cal Francisco Investment Corp. v. Vrionis, 14 Cal. App. 3d 318 (Cal. Ct. App. 1971); § 3426.1(d))
            (2) Injunctive relief available for actual or threatened misappropriation (§ 3426.2(a))
   B. Application of the DID in the case of a "departing employee"
      1. Resurrection of the doctrine in *PepsiCo v. Redmond*
      2. Application of the doctrine within California
         a) Courts initially accepted the doctrine until a key appellate ruling embracing the doctrine was depublished by the California Supreme Court. (First Amended Complaint, Advanced Micro Devices, Inc. v. Hyundai Elecs. Am., Santa Clara Superior Ct. No. CV752679 (Oct. 24, 1995); Electro Optical Industries, Inc. v. White, 90 Cal. Rptr. 2d 680, 684 (Cal. Ct. App. 1999), *ordered depublished* (April 12, 2000)).
         b) Predecessors of *Globespan* rejected the doctrine on various grounds
            (1) Danjaq, LLC v. Sony Corp., No. CV 97-8414-ER, 1999 WL 317629, at *1 n.1 (C.D. Cal. Mar. 11, 1999) (rejecting plaintiff's reliance on Pepsico, since "*PepsiCo* is not the law of the State of California or the Ninth Circuit.")

(2) Computer Sciences Corp. v. Computer Sciences Int'l Inc., Nos. CV 98-1374-WMB SHX, CV 98-1440-WMB SHX, 1999 WL 675446 (C.D. Cal. Aug. 12, 1999) (asserting that plaintiff's misapplied the doctrine as grounds for a misappropriation action, but acknowledging that the doctrine may provide a basis for injunctive relief).

(3) *Bayer v. Roche Molecular Systems, Inc.*, 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999) (rejecting the doctrine as counter to California public policy favoring employee mobility, as set forth in Cal. Bus. Prof. Code §16600).

III. Case Summary

A. Facts

B. Procedural Posture

C. Holding – relying on precedent set in *Danjaq*, *Computer Sciences*, and *Bayer*, the court essentially rejects the DID as against California public policy favoring employee mobility

IV. Analysis

A. Rejection of the Doctrine of Inevitable Disclosure Based on § 16600 Is Improper

1. The court incorrectly asserts that the DID creates an ex poste facto covenant not to compete

a) This interpretation is inconsistent with the doctrine's use as an evidentiary presumption for evaluating the merits of a claim for injunctive relief - Bayer (Pooley article)

b) In other areas of law, injunctive relief restricting the freedoms that an individual might otherwise enjoy is routinely granted where necessary to prevent illegal activity

c) An injunction based on the doctrine does not enjoin an employee from "competing," it enjoins an employee from engaging in unlawful behavior (i.e., disclosing trade secrets to a new employer)

2. Comparison of DID-based injunctive relief with "conventional" pre-employment covenants not to compete: although both result in decreased employee mobility, they merit different treatment under §16600 for several reasons

a) The limited history of § 16600 indicates intent not so much for the protection of an individual's freedom to pursue her livelihood, but for the protection of free trade and the prevention of monopolies (discussed in Gilson; need more direct support for this proposition)

b) M.O. of the DID

(1) invoked relatively infrequently, only in the litigation setting, and with limited success

(2) motivation for invoking the DID is to prevent the disclosure of *specific trade secrets*, not to prevent an individual from pursuing a trade or business (although this may sometimes be the outcome)

c) In contrast, covenants not to compete have become a prevalent and routine part of employment agreements

(i) in many cases, employers require non-competition agreements from their highest level executives to their rank-and-file employees (L. Miller article, NBC Today broadcast), suggesting that the motivation here is not so much to prevent the disclosure of trade secrets by ex-employees but to foreclose the availability of a *generally skilled* workforce to its competitors

(ii) in other words, the covenant not to compete is being used offensively as a way to contract around anti-trust laws and hobble the competition

3. Conclusion: pre-employment covenants not to compete, which can be broadly applied to essentially restrict the mobility of an entire workforce and restrain free trade, rightly fall under the rubric of § 16600. The use of the DID as an evidentiary presumption in trade secret litigation to prevent an illegal act (i.e., disclosure of specific trade secrets) does not implicate § 16600

B. The DID Should Be Rejected on Other Grounds

1. The DID is an unnecessary expansion of the "threatened misappropriation" already proscribed by 3426.2(a)
   a) Historically, threatened misappropriation has required "intent" to disclose on the part of the departing employee (*IBM v. Seagate*; need more support for this proposition), whereas the DID can enjoin an employee whether or not his disclosure is "conscious or unconscious" (Milgrim)
   b) *Bayer* court (N.D.Cal.) distinguishes between the DID and threatened misappropriation under 3426.2(a)
   c) In practice, courts from a variety of jurisdictions have generally applied a standard of intent or bad faith when granting or denying injunctive relief based on DID (M. Miller law review article; *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).
   d) Limiting injunctive relief to cases of "threatened misappropriation" (narrow) rather than "inevitable disclosure" (broad) allows the "information leakage" seen by some commentators as a key factor in Silicon Valley's success (Pooley and Gilson articles)
2. Already, overbroad application of the DID has improperly expanded ts law
   a) Although the DID is not itself a cause of action, plaintiffs in *Globespan* and other cases (*Computer Sciences*) have misapplied the doctrine in this manner
   b) The DID has been improperly used as evidence to support judicial enforcement of pre-employment covenants not to compete (*Lumex*)
      (1) covenants not to compete should be evaluated according to the rule of reasonability

(2) use of the DID in evaluating covenants not to compete may lead to the dangerous result of enforcing covenants that are otherwise unreasonable by their terms. If there is truly a threatened misappropriation, then the appropriate remedy is prescribed by 3426.2(a), not by the judicial enforcement of an unreasonable covenant not to compete

(3) the DID creates a gray area that paranoid employers may exploit: when is disclosure "inevitable" and when is there merely a risk that disclosure may occur "sooner or later"?

c) Courts have unnecessarily used the DID as a separate basis for injunctive relief, when actual or threatened misappropriation has already been established (*Doubleclick*)

d) The court's grant of summary judgment to the defendants in *Globespan* will prevent improper use of the DID, e.g., as grounds for bringing claims that otherwise lack merit

(1) Overview of summary judgment (sj) in the trade secret context

(a) Reasons why defendants have had difficulty achieving sj in the past - question of fact regarding the "elements" of ts misappropriation (Gilson, Posner articles)

(i) Was there a secret?

(ii) Were the efforts to protect the secret reasonable?

(iii) Etc.

(b) How are these reasons overcome in *Globespan*? (Did the court reach the correct outcome? Did the court take the approach that defendants simply failed to state a claim in view of their distinction between threatened misappropriation and the DID? (Need more in-depth analysis of this question))

(2) In the absence of *Globespan*, employers might invoke the DID as a potential tool of intimidation or harassment against:

(a) defendants, esp. those who are fledgling competitors/start-ups (and oftentimes the source of innovation) - the DID may shift the burden of proof from plaintiff to a possibly resource-limited defendant; eliminating the DID places the burden of proof back on the plaintiff (Chu article)

(b) negative effects on employer/employee relationship

(i) employees experience feelings of "indentured servitude" (Baja article, e.g.)

(ii) employers have used the DID to "send a message" to employees (Deger article, e.g.)

(iii) DID as counter-incentive for employers to retain employees by other measures, e.g., with bonuses, potential for advancement, etc.

C. The Factors that Contribute to the Finding of a "Threatened Misappropriation" Need To Be Clearly Defined and Uniform Among Jurisdictions

1. Some of the factors that courts already look to in determining whether disclosure is "inevitable" can be considered evidence of intent (i.e., a threatened misappropriation under 3426.2(a)) and/or can serve to meet the requirements for injunctive relief: irreparable harm, likelihood of success on the merits, balance of the hardships, etc. Some of the factors which courts have already considered are as follows (courts are really all over the place here – see court's opinion in Bayer):
   a) The degree of competition between the former and new employer
   b) The new employer's efforts to safeguard the former employer's trade secrets
   c) The former employee's lack of forthrightness (bad faith)
   d) The degree of similarity between the old and new positions
   e) Are the trade secrets clearly specified? Of value?
   f) Has actual misappropriation already occurred?
2. Additional factors to be proposed in this Note:
   a) The nature of the secret (a technology vs. a strategy/business plan)
      (1) often quite difficult to draw the line between a technology-based trade secret and general know-how, whereas one can more easily get one's arms around the trade secret when it involves marketing strategies, customer lists, strategic plans, etc. ("business knowledge")
      (2) With respect to technology-based trade secrets, narrowly construed ts laws cut both ways: an employer who loses an employee with tech knowledge may fear that its competitor will gain an advantage. But the employer could just as easily be on the other side of the coin and likewise gain an advantage. (This reciprocal effect is what Saxenian and Gilson envisioned in an innovative/improvement-based environment; i.e., avoidance of the collective action problem)
      (3) However, an ex-employee's disclosure of "business knowledge" to a major competitor is unlikely to be similarly offset, thus weighing in heavily in terms of the potential for "irreparable harm" (from Pepsico: "Pepsico finds itself in the position of coach, one of whose players has left, playbook in hand, to join the opposing team before the big game")
   b) Nature of the new employer
      (1) If the new employer is a large corporation: the cost-benefit analysis for a large corporation would likely favor undertaking a protracted and costly litigation, knowing that these losses will be offset by the value of the trade secret the new employee will disclose
      (2) Did the new employer heavily recruit the ex-employee
   c) Nature of the employee's new position: an addition to an already established team or department? Or a newly created position, esp. supervisory, to lead a new research or marketing initiative?
   d) More factors …
3. Applying a more clearly defined "threatened misappropriation" standard provides employers with sufficient trade secret protection while allowing the "information leakage" necessary to spur innovation.

a) Demonstrate how the above factors can be applied in practice to cover the canonical situations where employers are deserving of trade secret protection: e.g., AMD (several employees leave to work for competitor who immediately announces a product launch) and Pepsico (employee with intimate knowledge of business plan leaves to join competitor after being heavily recruited)
b) Discuss how this standard may not cover what is "in the employee's head," i.e., what has become inextricably linked to the employee's general know-how and thus has become part of the employee's "human capital." (Not sure where I'm going with this yet.)

D. Conclusion – summary of points A-C above