How "Inevitable Disclosure" Is Shifting Trade Secrets Law

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Increasingly, plaintiffs are attempting to prove "threatened misappropriation" of trade secrets through the emerging theory of "inevitable disclosure." Under this theory, a threatened misappropriation is found based upon the determination that the employee will inevitably use or disclose the former employer's trade secrets that are in the employee's mind in a new position with a competitor. Implicit in the theory of "inevitable disclosure" is the proposition that the employee cannot perform his or her new duties with a competitor without drawing on the former employer's trade secrets.

Protecting the Keys to the Corporate Kingdom

Employee mobility has been a fact of corporate life over the past several decades. During their tenures, many of these departing employees learned the most intimate and sensitive information about their employers' businesses. Even when no tangible information is taken, the departure of employees can cause anxiety because they often hold the keys to the corporate kingdom in their minds. Former employers fear that a competitive advantage could be lost if this information falls into the wrong hands. Thus, the inherent tension between an employer's right to protect its trade secrets and an employee's right to mobility emerges.

An employee is not prohibited, under the law of most states, from using or disclosing:

• the general knowledge and skills he or she acquired from a former employer; or

• information that is readily available in the market.

However, the law of most states prohibits actual or threatened misappropriation of trade secrets. To warrant trade secret protection, information typically must be sufficiently secret to be of economic value, not generally known or easily replicated, and the subject of reasonable efforts by the owner to maintain its secrecy.

Courts have a wealth of experience dealing with claims of actual misappropriation of trade secrets – an employee walks out with a document containing the secret formula – and there is a significant body of case law addressing the actual misappropriation of trade secrets. There are fewer judicial decisions, and less guidance, regarding the threatened misappropriation of trade secrets, because departing employees do not normally broadcast their intent to use or disclose the trade secrets of their former employers. Often, the former employer learns that its proprietary information is at risk only after there is evidence that it has been misappropriated.

Pepsico Leads the Way

The Seventh Circuit, interpreting Illinois law, was one of the first courts to give credence to the theory of inevitable disclosure in *Pepsico, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). In *Pepsico*, a high-level Pepsico employee responsible for the competitive sports and new age drink market left to work for Pepsico's competitor, Quaker. At Pepsico the employee was General Manager of the California business unit, and in this position he helped prepare and implement plans to compete, financial goals, and strategies for manufacturing, production, marketing, packaging, and distribution for the coming years in the areas of new age drinks and sports drinks. Quaker had offered the employee a position as Vice President-Field Operations for Gatorade, with responsibility for Gatorade and Snapple. Pepsico sought a preliminary injunction, asserting that the employee "cannot help but rely on [Pepsico] trade secrets as he helps plot Gatorade and Snapple's new course, and that these trade secrets will enable Quaker to achieve a substantial advantage by knowing exactly how [Pepsico] will price, distribute, and market its sports drinks and new age drinks...."

Pepsico showed that its Strategic Plan, Annual Operating Plan, and its attack plan, constituted trade secrets of which the departing employee had intimate knowledge. *Pepsico* also introduced evidence that Quaker was still in the process of developing its marketing and business plans. The Seventh Circuit adopted the inevitable disclosure theory relying upon the trial court's conclusion that "unless the employee possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of [Pepsico] trade secrets."

Inevitably Mixed Review

The inevitable disclosure doctrine has received mixed reviews in courts across the United States. At the far end of the spectrum, California courts have rejected the theory. In *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277 (4th Dist. 2002), a California appellate court held that the doctrine creates a *de facto* covenant not to compete and runs counter to California's public policy favoring employee mobility. Although an Illinois appellate court adopted *Pepsico's* articulation of the inevitable disclosure theory, *see Strata Marketing, Inc. v. Murphy*, 317 Ill. App.3d 1054 (1st Dist. 2000), it did so in the context of reversing a lower court's dismissal of a complaint. Seven years after the Seventh Circuit Court decided *Pepsico* based on Illinois law, the theory remains largely untested in Illinois state courts. Other jurisdictions have adopted the doctrine without providing a clear articulation of the circumstances under which it will be applied. *See Lumex, Inc. v. Highsmith*, 919 F.Supp 624 (E.D.N.Y. 1996); *Merck. & Co. Inc. v. Lyon*, 941 F.Supp 1443 (M.D.N.C. 1996).

This lack of judicial guidance is due in part to *Pepsico's* failure to articulate a clear standard. The *Pepsico* court emphasized that the mere fact that an employee assumes a similar position with a competitor does not make it inevitable that he or she will use or disclose the former employer's trade secrets. There must be something more. Just what that "something more" is is not entirely clear from the *Pepsico* decision. Although not expressly articulated by the Seventh Circuit as an element of the theory, the trial court in *Pepsico* found that the employee and his new employer lacked credibility and that there was an evident lack of candor associated with the employee's departure from Pepsico and Quaker's recruitment of the employee.

The one thing that is clear in those jurisdictions that have adopted the inevitable disclosure doctrine is that liability will not be found merely because an employee *could* use or disclose the trade secret information. The former employer must allege and show that use or disclosure *will* occur. Some of the factors courts other than *Pepsico* have considered in determining whether disclosure is inevitable include:

- The degree of competition between the former and new employer;
- The specific nature of the employee's new position;
- Whether trade secret misappropriation has already occurred;
- The new employer's efforts to safeguard the former employer's trade secrets; and
- The former employee's degree of candor regarding his or her acceptance of the new position and the work he or she will perform in the new position.

Corporate employers should keep the inevitable disclosure doctrine in mind as they seek to protect their own trade secrets and in the hiring of new employees who had access to a competitor's trade secrets. In doing so, employers should remember that many jurisdictions have not yet articulated precise standards for application of the doctrine. Given this relatively subjective approach to the issue, courts are likely to pay close attention to the equities of the parties' positions in determining whether to apply the doctrine in a particular case. In fact, they may be more inclined to apply the doctrine when the defendant's conduct suggests a lack of candor or a predisposition to misuse trade secrets.

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