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NOTE

Locating Inevitable Disclosure's Place in Trade Secret Analysis

Jennifer L. Saulino

INTRODUCTION

For ten years, William Redmond, Jr., worked for PepsiCo, the maker of the sports drink All-Sport.[1] Redmond's status as General Manager gave him access to trade secrets.[2] PepsiCo protected those trade secrets by contract, and, as is typical, PepsiCo required Redmond to sign a confidentiality agreement covering all "confidential information relating to the business of [PepsiCo]."[3] This confidentiality agreement, like most of its kind, protected the company from the danger that an employee who knew secret information would change jobs and disclose that information.

In late 1994, Redmond accepted a position with Quaker's Gatorade division, a major competitor of PepsiCo's All-Sport. Redmond's new position held sufficient similarities to his position at PepsiCo that PepsiCo had reason to fear he might use the secret information he held. PepsiCo filed suit seeking a temporary injunction to prevent Redmond from assuming his duties at Quaker and to prevent him from disclosing trade secrets. PepsiCo's argument, which became the defining element of the case and caused the case to become a pivotal component of current trade secret law, was that Redmond would "inevitably disclose" PepsiCo trade secrets in his new job at Quaker.[4]

1. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1264 (7th Cir. 1995).

2. "A trade secret may be broadly defined as any secret process, formula, program or other confidential information that derives commercial value from being kept secret, where the owner of the information has taken reasonable steps to protect that secrecy." 1 WILLIAM C. HOLMES, INTELLECTUAL PROPERTY AND ANTITRUST LAW § 2.01, at 2-1 (1999) (citing Uniform Trade Secrets Act § 1(4), 14 U.L.A. 437 (amended 1985).

3. *PepsiCo*, 54 F.3d at 1264.

4. *See id.* at 1266. Specifically, PepsiCo argued that, among other things, Redmond had knowledge of its "Strategic Plan," an annually revised document containing competition plans, as well as goals and strategies for manufacturing, production, marketing, packaging, and distribution for three years. PepsiCo also cited its Annual Operating Plan ("AOP") as a trade secret because it contained sensitive information about how PCNA (PepsiCo of North America) priced its products in the marketplace. The AOP included customer development agreements which detail how PepsiCo targeted potential customers. PepsiCo considered this information a trade secret because it would allow competitors to anticipate pricing moves

PepsiCo argued that it found itself "in the position of a coach, one of whose players [had] left, playbook in hand, to join the opposing team before the big game."[5] The Seventh Circuit agreed and enjoined Redmond from working for Gatorade for six months.[6]

One basic principle of trade secrets law is that employees owe a duty to employers not to disclose information that qualifies as a trade secret. Ordinarily, an employer may recover damages from, or secure an injunction against, the misappropriation or disclosure of trade secrets.[7] An employee's general knowledge, on the other hand, is not considered a trade secret.[8] Inevitable disclosure lies between these two extremes. As this Note defines it, and as its history supports, inevitable disclosure means that the employee's general knowledge and the employer's trade secrets cannot be separated so that it would be "virtually impossible"[9] for the employee to do his or her new job without using the former employer's secrets.[10]

As companies become more technologically based and employees more mobile, the concept of inevitable disclosure likely will apply increasingly to trade secret disputes between employers and former employees.[11] More and more, trade secrets are not concrete formulas that a court could simply tell an employee not to disclose. Companies depend increasingly on ideas in such areas as technology or marketing, as in *PepsiCo*. Even if a court granted an injunction against disclosure

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and underbid strategically. Redmond not only had detailed knowledge of this information, he had been involved in preparing PCNA's customer development agreements in California and with California-based national customers. PepsiCo feared that Redmond could not possibly do his job well at Quaker without using the knowledge he had of PepsiCo's strategic plans to chart Quaker strategy.

5. *Id.* at 1270.

6. *Id.* at 1272.

7. *See* Uniform Trade Secrets Act § 2, § 3, 14 U.L.A. 437 (amended 1985).

8. *See infra* notes 33-34 and accompanying text.

9. Emery Indus., Inc. v. Cottier, No. C-1-78-474, 1978 U.S. Dist. LEXIS 15953 at *17 (S.D. Ohio Aug. 18, 1978).

10. The defining element of inevitable disclosure is that, as the name would suggest, disclosure will happen even in the best of good faith. As will be demonstrated, there are some cases that seem to equate inevitable disclosure with threatened misappropriation and thus require some demonstration of intent to disclose. *See infra* note 37 and accompanying text.

11. *See, e.g.*, Matthew K. Miller, Note, *Inevitable Disclosure Where No Non-Competition Agreement Exists: Additional Guidance Needed*, 6 B.U. J. SCI. & TECH. L. 9 (2000).

> As an increasing number of companies vie for the riches of the high-tech world, the value of employees with technical knowledge and the knowledge of markets and customers continues to rise. At the same time, however, employees are leaving their jobs with greater and greater frequency to work for competitors or start their own businesses.

Id. (citing Stephen L. Sheinfeld & Jennifer M. Chow, *Employees' Duties and Liabilities: Protecting Employer Confidences*, *in* WRONGFUL TERMINATION CLAIMS: WHAT PLAINTIFFS & DEFENDANTS HAVE TO KNOW 347, 349 (PLI Litig. & Admin. Practice Course, Handbook Series No. 581, 1998)).

of newer trade secrets, the employee would disclose inadvertently just by doing his job.

PepsiCo was not the first case to invoke an argument of inevitable disclosure of trade secrets.[12] Yet, recognition of inevitable disclosure by the Seventh Circuit gave the argument a legitimacy that sparked a sharp increase in its use. Courts and commentators grappling with increasingly difficult trade secret disclosure issues latched onto the theory of inevitable disclosure as a panacea to the problem of how to handle complicated cases of trade secrets held in former employees' heads.[13]

Unfortunately neither the *PepsiCo* court, nor any court following *PepsiCo*, has defined the doctrine of inevitable disclosure.[14] Courts analyze trade secrets cases by a standard, uniform method. The doctrine of inevitable disclosure, however, emerged as judges looked for ways to correct inequities that did not fit into the trade secrets mold. The birth of the inevitable disclosure doctrine was a solution to a problem of equity. The *PepsiCo* court gave legitimacy and importance to the doctrine as a part of trade secrets law but failed to give courts a

12. *See, e.g.*, Sybron Corp. v. Wetzel, 385 N.E.2d 1055 (N.Y. 1978).

13. *See, e.g.*, Lumex. Inc. v. Highsmith, 919 F.D. Supp. 624, 633 (E.D.N.Y. 1996); Merck & Co. v. Lyon, 941 F. Supp. 1443, 1457 (M.D.N.C. 1996) (relying on *PepsiCo*); Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Servs., Inc., 987 S.W.2d 642, 644 (Ark. 1999); Novell v. Timpanogos Research Group Inc., 1998 WL 177721, 46 U.S.P.Q.2d 1197, (Utah Jan. 30, 1998); Hanna Bui-Eve, *To Hire or Not to Hire: What Silicon Valley Companies Should Know About Hiring Competitors' Employees*, 48 HASTINGS L.J. 981, 998 (1997); Peter Huang, *Preventing Post-*PepsiCo *Disaster: A Proposal for Refining the Inevitable Disclosure Doctrine*, 15 SANTA CLARA COMPUTER & HIGH TECH L.J. 379, 405 (1999); *"Inevitable" Misappropriation After* PepsiCo, Inc. v. Redmond, 537 PLI/Pat 1999, 201 (1998); Jay L. Koh, *From Hoops to Hard Drives: An Accession Law Approach to the Inevitable Misappropriation of Trade Secrets*, 48 AM. U. L. REV. 271, 279 (1998) ("Following *PepsiCo*, an even greater number of courts have discussed, adopted, and applied the inevitable misappropriation doctrine."); Lawrence I. Weinstein, *Revisiting the Inevitability Doctrine: When Can a Former Employee Who Never Signed a Non-Compete Agreement Nor Threatened to Use or Disclose Trade Secrets Be Prohibited from Working for a Competitor*, 21 AM. J. TRIAL ADVOC. 211, 228 (1997).

14. Over the past several years, three authors have proposed methods of imposing order on the confused "doctrine" of inevitable disclosure, noting courts' inconsistencies. None of them, however, has proposed to define the doctrine within the framework of the traditional trade secrets analysis.

> Over the last thirty years, a growing number of federal and state courts have wrestled with employers' concerns regarding the disclosure of trade secrets in an attempt to develop a coherent approach to the doctrine of inevitable misappropriation. Unfortunately, the result has been an inconsistent, unpredictable and undesirable patchwork of legal standards that appears both inequitable and inefficient.

Koh, *supra* note 13, at 273-74; *see also* Susan Street Whaley, Comment, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, 811 (1999) (referring to the "undefined and misapplied inevitable disclosure doctrine"); Suellen Lowry, Note, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519, 521 (1998) ("A brief sampling of typical inevitable disclosure decisions demonstrates that they are often not based on in-depth doctrinal analysis.").

defined standard from which to build.[15] If trade secrets law is to continue to maintain its relative uniformity across the states, inevitable disclosure needs formal definition as a doctrine.[16]

This Note argues that inevitable disclosure should become a standard part of trade secrets analysis. Part I argues that courts should use inevitable disclosure to fill the gap in standard trade secrets analysis between the highly protected status of trade secret and the unprotected status of employee general knowledge. Part I concludes with a blueprint for inevitable disclosure analysis that conforms with trade secrets law in general. Part II argues that the definition outlined in Part I is consonant with the historical development of inevitable disclosure and trade secrets law. Part II demonstrates that the inevitable disclosure doctrine developed as equity filled in where trade secrets law created a gap. Part II then illustrates that the *PepsiCo* Court's failure to provide a doctrinal framework for inevitable disclosure cases has generated inconsistent judicial applications, demonstrating the need for a uniform standard. This Note concludes that courts should consider inevitable disclosure in a uniform fashion as a part of standard trade secret analysis.

I. INEVITABLE DISCLOSURE'S PLACE IN THE STANDARD TRADE SECRET ANALYSIS

This Part proposes a definition of the right held by employers that provides clear guidelines for the courts to apply. Furthermore, this definition grants courts ample discretion to fashion remedies appropriate to the facts of the particular case.[17] Section I.A outlines the analysis of a typical trade secret case and identifies the gap to be filled by inevitable disclosure. Section I.B argues that inevitable disclosure

15. While some readers might question why a Seventh Circuit decision on a law that is typically state-derived should matter to other courts, especially state courts outside the circuit, *PepsiCo* has been extensively cited by courts across the country. *See infra* note 106. Trade secrets law is largely uniform so the extent of the decision's impact is not surprising.

16. The historically low profile of trade secrets may explain why the natural combination that would make inevitable disclosure a standard part of a trade secret analysis has not yet been achieved.

> In the field of intellectual property the trade secret is in a very real sense the "unsung hero." One of the reasons for this is the fact that trade secret protection does not require bureaucracies or government agencies. As a direct result, with the exception of a relatively small number of attorneys who have chosen to become specialists in the field, there is not 'trade secret bar' to compare to the cadre of dedicated professionals that is involved in the granting and enforcing of patents, copyrights, and trademarks.

1 TERRENCE F. MACLAREN, WORLDWIDE TRADE SECRETS LAW xxxv (1998).

17. While previous authors who addressed the inevitable disclosure confusion may not have provided courts with much guidance on how to formulate their decisions, they did rightly recognize the need for courts to remain sensitive to the unique consequences of restricting the employment options of an individual because of the rights of a former employer. *See infra* note 60.

should fill this gap and proposes a blueprint for incorporating inevitable disclosure into the trade secret analysis. The blueprint de-couples the determination that disclosure is inevitable from the question of remedy while still recognizing the necessity of an intensive case-specific analysis. This Part ultimately concludes that courts must formally recognize and define the inevitable disclosure doctrine in a uniform fashion to best protect the rights of employers and employees.

A. *A Typical Trade Secrets Case — Identifying the Gap*

The typical trade secrets analysis involves identifying a trade secret, identifying its actual or threatened disclosure, and fashioning a remedy. The remedies for actual and threatened misappropriation[18] differ. With actual disclosure, courts typically award damages. For threatened misappropriation, courts should, ideally, grant an injunction against disclosure or use. This procedure best serves the owner's purposes because the secret remains a secret. The remedy phase is the key to identifying the gap: a secret subject to inevitable disclosure, by definition, cannot be enjoined.

The first step in the general trade secret analysis is a determination that a trade secret exists. A trade secret is information that is valuable, secret, and the subject of reasonable efforts by the employer to keep it secret: "A trade secret may be broadly defined as any secret process, formula, program or other confidential information that derives commercial value from being kept secret, where the owner of the information has taken reasonable steps to protect that secrecy."[19] Unless a trade secret exists, none of the remaining analysis matters. The definition is broad so that a limitless amount of information could become a "trade secret."[20] The moment information is publicly disclosed, however, it loses its status as a trade secret, no matter how the disclosure

18. Misappropriation and disclosure are, for all intents and purposes under trade secrets law, synonymous. The theory is that a trade secret, once disclosed, is no longer a trade secret and that is how damage is done. Misappropriation is used as simply another word for disclosure — indicating that one only "misappropriates" (steals) a trade secret by wrongfully disclosing and using it. "Threatened misappropriation" is unlawful under common law of trade secrets and most state laws. *See* Uniform Trade Secrets Act § 2, 14 U.L.A. 437 (amended 1985) ("Actual or threatened misappropriation may be enjoined."). The important point here is that inevitable disclosure is the recognition of a category falling somewhere between a blatant violation already recognized and prohibited by law and the disclosure of "general employee knowledge" not considered a trade secret.

19. HOLMES, *supra* note 2, at § 2.01.

20. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (1995):

> It is not possible to state the precise criteria for determining the existence of a trade secret. The status of information claimed as a trade secret must be ascertained through a comparative evaluation of all the relevant factors, including the value, secrecy, and definition of the information and the nature of the defendant's misconduct.

Id.

occurs.[21] Information disclosed confidentially, however, remains secret for the purposes of trade secrets definition.[22] Causes of action for trade secrets protection can be contractually based or premised in criminal or tort theory.[23]

The basic elements of that cause of action are described in § 757 of the Restatement of Torts:

> One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if:
> (a) he discovered the secret by improper means, or
> (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
> (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person's disclosure of it was otherwise a breach of his duty to the other.[24]

Essentially, a person is liable for disclosing a trade secret if he "stole" the secret or was entrusted with it through the course of employment and knew it was a secret. Thus, the former employee can be liable for disclosing a secret to a new employer and the new employer can be liable for "stealing" the secret.[25] This formulation of liability

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21. HOLMES, *supra* note 2, at § 2.04, 2-17 ("Public disclosure of a trade secret destroys the information's status as a protected trade secret — a result which follows whether the disclosure was intentional, accidental, or even the result of someone else's wrongdoing.").

22. *Id.* § 2.03 at 2-13 to 2-14:

> The courts recognize the necessity of certain confidential disclosures if the trade secret owner is to effectively carry out its trade or business . . . the courts hold that if the nature of the disclosure gives rise to an express or implied obligation of confidentiality, the person receiving the information will be held to that obligation, and the mere fact of disclosure will not itself forfeit trade secret status . . . .

Id.

23. *Id.* § 2.04 at 2-15. While many states have criminal sanctions for certain types of trade secrets misappropriation, even the federal government criminalized knowing and intentional misappropriation by federal law. *See* Economic Espionage Act of 1996, Pub. L. No. 104-294 (codified in scattered sections of 18 U.S.C.). This Note focuses on those causes of action arising out of the common law and statutory actions for tortious misappropriation of trade secrets. Recall that "misappropriation" and "disclosure" are synonymous in the trade secrets world. *See supra* note 18.

24. RESTATEMENT OF TORTS § 757 (1939).

25. *See* Uniform Trade Secrets Act § 101, 14 U.L.A. 438 (amended 1985).
"Misappropriation" means:

> (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
> (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
> (A) used improper means to acquire knowledge of the trade secret; or
> (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
> (I) derived from or through a person who had utilized improper means to acquire it;
> (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
> (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

means that often trade secrets cases are brought jointly against the former employee and the employee's new employer.

The "secret" part of the trade secret is crucial. If the owner of a trade secret does not demonstrate efforts to keep it secret, a trade secret does not exist. Both the common law formulation and the Uniform Trade Secrets Act ("UTSA") contain a requirement of "reasonable measures" to keep the information secret.[26] The case law on this point varies as to how much effort is required to establish a "reasonable measure[]" and what combination of factors will suffice.[27] For instance, courts have imposed requirements such as confidentiality agreements,[28] restricted access,[29] or passwords for computer material.[30]

Once the existence of a trade secret is established, misappropriation under the UTSA and common law approaches takes two basic forms: actual or threatened misappropriation. Both actual and threatened misappropriation are considered unlawful. Courts engage in a fact-specific inquiry as to whether the former employee actually disclosed and/or the new employer actually used the secret or whether one of the two has threatened to do so.

After a finding of trade secret misappropriation, the courts move on to remedy.[31] Courts commonly measure damages either as a function of the plaintiff's actual economic injury, a function of the defendant's wrongful gain from exploitation of the trade secret in a restitution or unjust enrichment theory, or a reasonable royalty for the

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> (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Id.

26. *See* ROGER M. MILGRIM, 1 MILGRIM ON TRADE SECRETS § 1.04 (2000) ("Essentially, the courts require that a trade secret owner take reasonable measures to protect secrecy. Some courts might phrase the requirement more stringently to suggest that secrecy should be protected to the extent possible.") (citations omitted); *see also* 14 U.L.A. 438 (amended 1985):

> "Trade secret" means information, including a formula, pattern, compilation, program, device, 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 is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Id.

27. *See* MILGRIM, *supra* note 26, at § 1.04.

28. *See, e.g.*, Tyson Metal Prods., Inc. v. McCann, 546 A.2d 119, 122 (Pa. Super. Ct. 1988).

29. *See, e.g.*, Capsonic Group, Inc. v. Plas-Met Corp., 361 N.E.2d 41, 44 (Ill. App. Ct. 1 1977).

30. *See, e.g.*, Schalk v. State, 767 S.W.2d 441, 443 (Tex. App. 1988).

31. HOLMES, *supra*, note 2 ("Once the basic elements of a cause of action have been established, a wide range of relief may be requested.").

purchase of the right to use the secret.[32] In cases of threatened misappropriation and sometimes in cases of actual misappropriation, courts fashion an injunction preventing the competitor from using or disclosing the secret. Because the secret, once disclosed, is no longer considered a trade secret, disclosure can mean great economic loss to the former employer.

Unfortunately, sometimes information can be hard to classify. Concrete formulas can be identified as secret and are either disclosed or not. If an employee holds a formula in his head, he can be told not to reveal it. Other information might not be easily classified as either the company's secret or the employee's general knowledge. Employees' general skills, knowledge, and experience are not considered trade secrets.[33] As the Restatement on Unfair Competition recognizes:

> Information that forms the general skill, knowledge, training, and experience of an employee cannot be claimed as a trade secret by a former employer even when the information is directly attributable to an investment of resources by the employer in the employee.... Whether particular information is properly regarded as a trade secret of the former employer or as a part of the general skill, knowledge, training, and experience of the former employee depends on the facts and circumstances of the particular case.[34]

This Restatement section addresses a problem within the competitive marketplace; namely, while employees gain skills from their employers, they should not be prevented from changing jobs. It shows that courts developed the common law theory that general employee knowledge could not be protected as a trade secret. This passage from the Restatement, though, highlights that exactly what qualifies as general knowledge has always been considered a case specific determination.

Courts have long wrestled with the distinction between general knowledge and experience and specific trade secret knowledge.[35] Some

32. *Id.* ("Punitive damages have also on occasion been awarded, as have been attorney's fees in exceptional cases .... Potentially the most valuable remedy, however, will be an action for injunctive relief.").

33. *See* MILGRIM, *supra*, note 26, at § 5.02[3][a] (citations omitted); *see also* Hoskins Mfg. Co. v. PMC, 47 F. Supp. 2d 852 (E.D. Mich. 1999).

34. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995).

35. *See, e.g.*, AMP, Inc. v. Fleischhacker, 823 F.2d 1199, 1207 (7th Cir. 1987) (proclaiming of the general skills and knowledge acquired in the course of employment, "Those are things an employee is free to take and to use in later pursuits, especially if they do not take the form of written records, compilations or analyses."); S.I. Handling Sys. , Inc. v. Heisley, 581 F. Supp. 1553 (E.D. Penn. 1984):

> In this context "know-how" takes on a meaning far beyond simply assembling components. Rather, it is the ability, gained from trial and error, experimentation and the expenditure of many dollars in investment which collectively gave to S.I. this type of know-how. This know-how is distinguishable from an individual's general knowledge and skill.

Id.; Trilog Ass'n., Inc. v. Famularo, 314 A.2d 287, 291-94 (Pa. 1974) (distinguishing between courts have found the distinction almost impossible to make because the information is inseparable from the employee, and yet still a trade secret. A gap in the definitional coverage of trade secrets law has developed.[36]

B. *A "Typical" Inevitable Disclosure Case — Filling the Gap*

If inevitable disclosure is a trade secrets doctrine, courts should follow the same three step process of identifying the secret, identifying whether it has been or will be disclosed, and fashioning a remedy. Traditional trade secrets law leads to solutions for most problems of how to protect secrets. Trade secrets law is not equipped, however, to deal with a secret that is inseparable from an employee — that is the gap that inevitable disclosure must fill. The most consistent and effective way to give structure to inevitable disclosure is to begin with a narrow definition of what the doctrine encompasses. This doctrinal framework leaves other trade secret issues in their established categories. For instance, cases of actual misappropriation should never be confused with inevitable disclosure. This Section proposes a narrow definition of inevitable disclosure and explain the necessity of keeping the steps separate.

The need to define the doctrinal framework of inevitable disclosure arises from its possible confusion with threatened misappropriation. Cases of threatened misappropriation already are provided for by statute and common law. As Section A discussed, threatened misappropriation is unlawful and is easily analyzed under regular trade secrets analysis: 1) decide whether a trade secret exists; 2) decide whether someone threatens disclosure; and 3) craft the appropriate remedy. Several courts, however, including the *PepsiCo* court, have conflated threatened misappropriation and inevitable disclosure in order to grant an injunction.[37] The two are distinct and courts should recognize the distinction.[38]

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knowledge of the employee and confidential information of the employer by demonstrating that any intelligent, talented computer programmer could have accomplished the same tasks without the knowledge of the plaintiff's former employer's confidential information.).

36. *See, e.g.*, Superior Consultant Co. v. Bailey, No. 00-CV-73439, 2000 WL 1279161 (E.D. Mich. Aug. 22, 2000) (limiting *PepsiCo* to its facts and finding the facts of *Bailey* incompatible but evidencing a desire for a reconciliation of the general knowledge/trade secret dichotomy).

37. *See, e.g.*, PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995) ("[W]hen we couple the demonstrated inevitability that Redmond would rely on . . . trade secrets in his new job . . . with the district court's reluctance to believe that Redmond would refrain from disclosing these secrets [we conclude the injunction is proper]."); La Calhene, Inc. v. Spolyar, 938 F. Supp. 523, 531 (W.D. Wis. 1996) ("It is sufficient to show the threat of misappropriation . . . . The threat of misappropriation is very real. Defendant's position with plaintiff gave him such intimate knowledge of plaintiff's research, product development, finances, marketing strategies and pricing information that it is all but inevitable that he will utilize that knowledge . . . ."); Merck & Co., Inc. v. Lyon, 941 F. Supp. 1443, 1457 (M.D.N.C. 1996)

Inevitable disclosure doctrine fills the gap between actual misappropriation and employee general knowledge by addressing nonmalicious or unintentional but nonetheless inevitable disclosure. It provides a remedy when an injunction against disclosure will not suffice because the information is inseparable from the employee. Thus, the information is recognized as a trade secret and not employee general knowledge, yet the employee is not acting in bad faith nor actually threatening disclosure.

The important distinction between inevitable disclosure and threatened misappropriation is one of remedy. Threatened misappropriation can be remedied by an injunction against disclosure, which brings with it court sanctions. Inevitable disclosure is a much more serious problem, because an injunction against disclosure will not work. The only remedy is an injunction against the employee working in some defined sector of his or her field. The remedy typically will be an injunction against employment but with compensation.[39]

Obviously, employers prefer an injunction against employment no matter the type of case because a court order may not deter a threatening employee.[40] The implications for the affected employee, however, necessitate that the law not allow employers such a cushion. With inevitable disclosure, evidence of bad faith or ill-intent is not a

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("Plaintiffs seek an injunction based on threatened misappropriation under a theory of 'inevitable disclosure.' "); Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Serv., Inc., 987 S.W.2d 642, 644 (Ark. 1999):

> Based on the foregoing findings, the trial court found that Cardinal had no compunction about suing or disclosing information covered under Hunt's confidential agreement to gain an unfair advantage. We believe such evidence and findings are more than sufficient to show a threatened or inevitable misappropriation of Hunt's trade secrets.

Id.; Strata Mktg., Inc. v. Murphy, 740 N.E.2d 1166, 1177 (Ill. App. Ct., Dec. 6, 2000) ("[Plaintiff] argues that it pled actual and threatened/inevitable disclosure in its complaint and urges us to adopt the inevitable disclosure doctrine.").

38. For instance, a recent article in the *Rhode Island Bar Journal* on litigating covenant not to compete and trade secret cases said of the UTSA: "The Act provides for injunctive relief to enjoin both actual and threatened misappropriation. Thus, even in cases in which actual misappropriation has not yet occurred, courts have enjoined potential misappropriation if the likelihood of 'inevitable disclosure' exists." Mark W. Freel & Matthew T. Oliverio, *When Commercial Freedoms Collide: Trade Secrets, Covenants Not to Compete and Free Enterprise*, 47 R.I. BAR J. 9, 41 (May 1999).

39. This Note agrees with other authors on this topic that the obvious power inequity between employees and employers in these situations should lead courts to explore creative remedies such as an injunction coupled with a salary compensation by the former employer. *See infra* note 60.

40. Cases that do not distinguish between threat and inevitable disclosure only confuse the issue. *See, e.g.*, Allis-Chalmers Mfg. Co. v. Cont'l Aviation Eng'g Corp., 255 F. Supp. 645, 654 (E.D. Mich. 1966) (determining that "[a] trade secret will not be protected by the extraordinary remedy of injunction on the mere suspicion or apprehension of injury. There must be a substantial threat of impending injury before an injunction will issue"). The court emphasized the word "threat" but decided the case on inevitable disclosure. *See id.*

part of the analysis.[41] If bad faith is present — if disclosure is actually threatened — then threatened misappropriation has occurred and the court should fashion an injunction against disclosure.

Because inevitable disclosure is not yet part of the standard analysis, courts faced with a situation where a trade secret will be disclosed by virtue of the new employment often decide that an injunction should issue and then look for a reason why, grasping the term inevitable disclosure.[42] This approach worked well in the past because courts could rest their justifications on equity.[43]

In an inevitable disclosure case, the first and most important step for a court is to decouple the decision as to which type of trade secrets case the court has in front of it from the remedy the court might impose. Courts trying to fashion a unique remedy for inevitable disclosure cases have confused the issue by making the remedy part of the reasoning.[44] The definition of inevitable disclosure and the remedy are somewhat intertwined because inevitable disclosure is easiest to identify when an injunction against disclosure will not be enough. In inevitable disclosure cases, the relief is by necessity equitable: an injunction against employment, maybe for a specified period of time, and perhaps with compensation. The trial court has much room for individualized tailoring because with inevitable disclosure there is no real "wrongdoer."[45] Further, courts are rightly sensitive to the problems inevitable disclosure doctrine creates for the principle of employee mobility. The best solution to these problems, however, is not to ignore standard analysis, blend it all together, and call it equity but, rather, to decouple the identification of inevitable disclosure from the remedy.

Decoupling definition from remedy will bring inevitable disclosure in line with standard trade secrets analysis. The UTSA decouples the remedy from the analysis in a regular trade secrets case by defining "trade secrets," "misappropriation," and "improper means" in section one, addressing injunctions in section two[46] and addressing damages in

41. *See, e.g.*, Bayer Corp. v. Roche Molecular Sys. Inc., 72 F. Supp. 2d 1111 (N.D. Cal. 1999) ("The [inevitable disclosure] theory allows plaintiff employers to demonstrate threatened misappropriation without evidence of an employee's intent to disclose trade secrets.") (interpreting *PepsiCo* and other cases).

42. *See, e.g.*, U.S. Fid. & Guar. Co. v. First State Bank & Trust Co., 941 F. Supp. 101 (E.D. Mo. 1996) (working backward from the prospect of an injunction, saying that it does not believe that the future risk of disclosure is "of a degree that would warrant injunction").

43. *See infra* Section II.B.

44. *See infra* Section II.B.

45. *See* FMC Corp. v. Varco Int'l, 677 F.2d 500, 504 (5th Cir. 1982) (determining that the disclosure of trade secrets would be at least likely if not "inevitable," then balancing the hardships to determine the remedy).

46. *See* Uniform Trade Secrets Act § 2, 14 U.L.A. 437 (amended 1985):

section three.[47]

In an inevitable disclosure case, courts first determine whether a trade secret exists or whether the information is general employee knowledge. At this point, the issue of inevitable disclosure emerges. If the information is a trade secret (and not general knowledge) but susceptible to inevitable disclosure (and not a trade secret whose disclosure is threatened), then the types of equitable remedies preventing employment are available. Because the remedy involved in inevitable disclosure cases is injurious to employee mobility, courts should be especially careful to handle these cases in the proper order.

Once the decoupling is accomplished, the first step in the analysis is to identify the alleged trade secrets and to determine whether they properly hold trade secret status.[48] What information qualifies as a trade secret is determined by the definitional lines used by the state — based on the *Restatement* or the UTSA. But all trade secret statutes ask whether the employer used "reasonable measures" to keep the information secret.[49] At various times, courts have proposed lists of reasonable measures such as keeping visitors out of certain areas or requiring visitor passes or confidentiality agreements from vendors.[50]

If a trade secret may be inevitably disclosed, evidence of reasonable measures should include the employer's recognition of the possibility of inevitable disclosure. If an employer knows an employee is likely to be exposed to trade secrets that inevitably will be disclosed if the employee changes jobs, that employer's demonstration of reason-

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> Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation. (b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable. (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

Id.

47. Uniform Trade Secrets Act § 3, 14 U.L.A. 437 (amended 1985):

> § 3 Damages: (a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret . . . .

Id.

48. *See supra* note 25 and accompanying text.

49. *See supra* notes 26-30 and accompanying text.

50. *See id.*

able efforts should include efforts to obtain a covenant not to compete or, at the very least, a confidentiality agreement.[51] An employer who produces even an invalid covenant not to compete or confidentiality agreement, produces at least some evidence of an attempt to bargain with the employee at the outset over the protection of the secret.[52] Evidence of protection from inevitable disclosure, of course, is limited by the facts of the specific case. If, for instance, the employer is in a state where covenants not to compete are presumptively invalid, courts could not require evidence of that sort. Furthermore, special employment facts would negate an inference that the employer did not use reasonable means. For example, an employee may have worked for the company since its creation, before anyone could have foreseen inevitable disclosure. Nevertheless, for the employer who had the opportunity to bargain with the employee at the outset, knowing that the employee's mobility could be restricted by the knowledge of trade secrets, the lack of effort to engage in that bargaining should affect the court's decision as to whether the employer used reasonable means to keep the information secret.[53]

Only after the determination of trade secret status has been accomplished and the inevitability of disclosure has been proven, should the court move to the remedy phase. While the nature of the doctrine of inevitable disclosure requires injunctive relief, judges should tailor the injunction to the facts of the case.[54] For instance, an invalid covenant not to compete may mean that the employee already has bargained for compensation for the inconvenience caused by the inability to work for a competitor for a set amount of time. Such information can help a judge to fashion the remedy. The possibility of inevitable disclosure might also provide support for upholding a covenant not to compete. But the two should be kept separate and distinct even when both are offered as theories in the same case.[55] In the absence of evi-

51. *See, e.g.*, *FMC Corp.*, 677 F.2d at 505-06 (recognizing the possibility of inevitable disclosure and then proceeding to analyze the efforts of the employer to keep the information secret, and concluding that the requirement of all employees with access to the confidential material to sign a confidentiality agreement helped to prove "reasonable measures").

52. *See e.g.*, Baxter Int'l Inc. v. Morris, 976 F.2d 1189, 1197 (8th Cir. 1992).

53. *See* Merck & Co. v. Lyon, 941 F. Supp. 1443, 1461 (determining that the failure to seek a noncompetition agreement from the employee indicated that the type of confidential information the employee possessed was of limited value).

54. *See* Emery Indus., Inc. v. Cottier, No. C-1-78-474, 1978 U.S. Dist. LEXIS 15953, *17-22 (S.D. Ohio Aug. 18, 1978) (holding injunction appropriate but awarding damages to employee paid by old employer for the duration of the injunction). Although *Emery* was a pre-*PepsiCo* case, that history is directly relevant to choices now. Precisely because this doctrine developed out of equity, *see infra* Section II.B, courts should keep equitable principles in mind while using the doctrine.

55. *See, e.g.*, APAC Teleservices, Inc. v. McRae, 985 F. Supp. 852, 863-65 (N.D. Iowa 1997) (using the covenant not to compete to inform the determination of trade secrets: "APAC's requirement that all new employees sign the nondisclosure agreement during their orientation session ... constitute[s] a 'reasonable effort under the circumstances' to protect

dence of an attempt to bargain for a covenant, a remedy that makes an employee effectively unemployable should be applied with care and avoided if possible.[56] Courts should consider the possibility of mandating payment by the former employer to the employee of a suitable salary to compensate for the loss of employability.[57]

The analysis of an inevitable disclosure case is thus fairly simple. The case proceeds along the same line as any trade secret case with room for the judge to tailor the remedy to the situation.[58] Moreover, this analysis ensures that the identification of inevitable disclosure remains separate and distinct from the judge's desire to find a remedy for a difficult employment situation. Such an analysis will allow the doctrine room to grow into itself, allowing for creativity in remedies.

The inevitable disclosure doctrine in its current confusing state is often criticized as a means of bulldozing courts into allowing companies to create covenants not to compete after employment has ended.[59] That result is unfair to unsuspecting employees who suddenly find themselves enjoined from seeking alternative employment. Standardizing inevitable disclosure as part of the trade secret analysis alleviates those fears. With the blueprint laid out herein, courts may not move backward from deciding that a remedy is appropriate and then call the case "inevitable disclosure." They will be forced to carefully analyze the existence of a trade secret first. That analysis must include a showing of efforts by the employer to keep the information secret. If the court finds that the employer was aware of the inevitability problem, the court must also find that the employer tried to protect against such an eventuality before it crafts a remedy that limits the unsuspecting employee's mobility.[60]

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the secrecy of these trade secrets"); Int'l Paper Co. v. Suwyn, 966 F. Supp. 246, 257-59 (S.D.N.Y. 1997) (using a discussion of inevitable disclosure to inform the court's decision about an injunction following the finding of an invalid covenant not to compete).

56. This was the concern of the *Emery* court even in the 1970s. *See Emery*, 1978 U.S. Dist. LEXIS 15953, at *17-22.

57. *See id.*

58. The more recent case of *Bendinger v. Marshalltown Trowell Co.*, 994 S.W.2d 468, 474-75 (Ark. 1999), recognized this necessity while at the same time acknowledging formal acceptance of the doctrine: "We support the chancellor's conclusion, for a finding of inevitable disclosure is determined largely by the evidence and testimony before the chancellor." *Id.*

59. *See, e.g.*, Del Monte Fresh Produce Co. v. Dole Food Co., Inc., 148 F. Supp. 2d 1326, 1335-36 (S.D. Fla. 2001); Michele B. Fagin, *Non-Compete by Non-Disclosure: The Doctrine of Inevitable Disclosure*, 28 COLO. LAW. 73, 75 (1999) ("The ability to prevent competition does not rest solely on the terms and enforceability of written non-competes.").

60. All three of the other authors who have extensively studied the problem and proposed solutions have done so with the objective of protecting employees. *See* Koh, *supra* note 13, at 308 ("Thus, current court approaches to the doctrine ... generate significant inequitable and inefficient results as well as an undesirable, generally pro-employer bias that discounts or ignores fundamental employee interests and resources."); Lowry, *supra* note 14, at 520 (claiming one of the major premises of the note to be that "the inherent flexibility of

While this approach does not seem to take into account employer/employee power discrepancies, it does give both employers and employees parameters for structuring their contractual relationships.[61] A consistent doctrinal analysis forces employers to consider the value of the trade secret upon hiring — before the employees lose the ability to compete. Formal definition helps both sides of this debate by removing the incentive to use inevitable disclosure as a wild card in litigation.[62] Employers gain a certainty as to their rights, and yet unsuspecting employees are protected — especially if courts adopt the principle that failure to sign a covenant not to compete or confidentiality agreement suggests a lack of reasonable efforts to keep the information secret. Further, the decoupling of determination of inevitable disclosure from the remedy should promote honesty and clarity in court opinions. A coherent doctrine will enable courts to explicitly de-

the current approach may subtly favor the interests of employers"); Whaley, *supra* note 14, at 811 ("[T]hrough the use of the undefined and misapplied inevitable disclosure doctrine, some courts that purport to be protecting the important value of trade secrets actually are restricting competition and preventing employee mobility in a way contrary to the traditional approach taken by many courts."). It seems likely that with this type of analysis the concerns of inequities for employees would also be alleviated because courts would have clear precedents as would lawyers drafting employment contracts.

61. *See* Earthweb, Inc. v. Schlack, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999):

> While the inevitable disclosure doctrine may serve the salutary purpose of protecting a company's investment in its trade secrets, its application is fraught with hazards. Among these risks is the imperceptible shift in bargaining power that necessarily occurs upon the commencement of an employment relationship marked by the execution of a confidentiality agreement. When that relationship eventually ends, the parties' confidentiality agreement may be wielded as a restrictive covenant, depending on how the employer views the new job its former employee had accepted. This can be a powerful weapon in the hands of an employer; the risk of litigation alone may have a chilling effect on the employee. Such constraints should be the product of open negotiation.

Id.

62. *See* Miles J. Feldman, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 HIGH TECH. L.J. 151, 172 (1994):

> The absence of a distinct legal rule gives both employees and their prospective employers an incentive to capitalize on information that is not rightfully theirs. The employer may not be able to assess whether the information is protectable as a trade secret. Moreover, the parties will be uncertain as to who will ultimately prevail in litigation. The uncertainty of prevailing combined with the high costs of litigation reduces the risk of loss to the employee who then has a greater incentive to misappropriate. A more certain rule would help to adjust the risks of litigation so that neither party will take advantage of an unclear rule.

Id.; *see also* Koh, *supra* note 13, at 304:

> If an injunction is granted, the employee is generally not compensated for her lost employment opportunities and the employer does not have to pay for the benefit of barring a competitor from acquiring a skilled employee .... On the other hand, if an injunction is denied, an employer will not be compensated for harm ... while the employee does not have to pay for the value she received from exposure to such trade secrets.

Id.

tail how they determined the appropriate remedies for balancing mobility of employees or competitiveness of employers.[63]

One district in California formally and explicitly recognized the doctrine of inevitable disclosure.[64] That court came to its conclusion by going through the UTSA definition and then examining other courts' use of inevitable disclosure — the first of those being *PepsiCo*.[65] This court's finding that the state's adoption of the UTSA naturally leads to the doctrine of inevitable disclosure bolsters the argument that courts should strive for coherent definition. A federal court applying state law in the same state, however, rejected the doctrine as against the public policy of employee mobility in California.[66] With the definition outlined in this Note, the doctrine takes on a narrow scope, forcing employer accountability for "reasonable measures," and protecting

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63. Koh intuitively recognizes the benefits of decoupling during his discussion of the merits and downfalls of a concurrent property interest approach: "Courts could determine inevitability of misappropriation separately from the appropriate remedy, thereby creating a more consistent set of precedents for the inevitability determination." Koh, *supra* note 14, at 315-16.

Recent cases suggest that courts may be moving in the direction suggested by this Note. These recent cases seem to be trying to give some concrete definition while recognizing the need for uniformity. *See, e.g., Earthweb*, 71 F. Supp. 2d at 299:

> [I]n cases that do not involve the actual theft of trade secrets, the court is essentially asked to bind the employee to an implied-in-fact restrictive covenant based on a finding of inevitable disclosure .... Thus, in 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 are ....

Id.; *Bendinger*, 994 S.W.2d at 474 ("Recently, this court adopted the inevitable-disclosure rule .... Because we have adopted the inevitable-disclosure rule, the only question to resolve is whether Bendinger's employment with Kraft will result in a situation where Bendinger will inevitably rely on Marshalltown's trade secrets."); Handy & Harman Elec. Materials Corp. v. Molex Inc., No. C.A. 99-6323, 2000 WL 1727355, at *9 (R.I. Super. Oct. 16, 2000) (refusing to use theory of inevitable disclosure because there was no evidence of confidential information). *But see* Hoskins Mfg. Co. v. PMC, 47 F. Supp. 2d 852 (E.D. Mich. 1999) (deciding the case based on inevitable disclosure while glossing over its own recognition that there was no evidence to suggest that information was in fact only known to the company — once the court found no trade secret, the analysis should have ended).

64. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680, 684 (Cal. Ct. App. 1999):

> Although no California court has yet adopted it, the inevitable disclosure rule is rooted in common sense and calls for a fact specific inquiry. We adopt the rule here. In ruling on a request for a preliminary injunction, the trial court decides whether the disclosure of trade secrets is "likely to result" or "impossible" not to result from the subsequent employment.

Id. That same court found that the trial court had not abused its discretion in concluding that the marketing plans at issue were not trade secrets and thus saw no basis for relief on that point. *See id.* at 686 ("Because the strategies are not trade secrets, the fact that SBIR might emulate them does not provide a basis for injunctive relief."). This opinion was subsequently withdrawn by order of the California Supreme Court. Electro Optical Indus., Inc. v. White, No. S085582, 2000 Cal. LEXIS 3536 (Cal. Apr. 12, 2000).

65. *See id.* at 684.

66. GlobeSpan, Inc. v. O'Neill, 151 F. Supp. 2d 1229 (C.D. Cal. 2001).

the employee by allowing the judge room to craft an appropriate remedy.

Other courts have explicitly asked for a formal doctrine. A Texas court in 1999 determined:

> We found no Texas case referring to a "doctrine of inevitable disclosure" but one case from this court has recognized that a former employee may be enjoined from using or disclosing the former employer's confidential or proprietary information if the employee is in a situation where use or disclosure is probable.[67]

This statement suggests that this court was looking for formal recognition and definition and when it did not find any in Texas case-law history, it refused to use the doctrine. The judge in Texas may have based this decision on a broader concept of uniform trade secrets law. The judge may also have thought that plaintiff was advancing a fanciful theory. Either way, this case demonstrates the willingness on the part of courts recently to accept the UTSA as definitive and reject undefined doctrines. The Texas court provides further support for a defined doctrine following the standard trade secret analysis.

II. WHY THE SOLUTION WORKS

This Part argues that inevitable disclosure developed outside regular trade secrets law and cites this divergent development as the reason for the disjunction between them. Section II.A explains why this Note assumes as a baseline that uniform trade secrets law is the standard to which inevitable disclosure should conform.[68] Section II.B

67. Conley v. DSC Communications Corp., No. 05-98-01051-CV, 1999 WL 89955, at *3 (Tex. Ct. App. Feb. 24, 1999). This language may have been motivated by the court's realization that the inevitable disclosure claim simply did not apply. Intent to misappropriate actually existed.

68. The even more basic assumption upholding this Note is that inevitable disclosure doctrine, properly formulated, fits neatly into the standard trade secret analysis. Other authors who have seriously addressed the issue of what to do with the nebulous doctrine of inevitable disclosure have attempted to categorize it as a property theory. This Note rejects that categorization and recognizes that the solution must include a standard trade secret analysis because trade secrets law is not a subset of property law.

Justice Holmes long ago acknowledged the problem with using a property analysis to solve trade secret problems and recognized the analysis of trade secrets as distinct:

> Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs....

E.I. Du Pont De Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917). Another distinctive aspect of trade secrets law is that a cause of action exists for "threatened misappropriation" because disclosure kills the trade secret. This cause of action, specifically provided for in the UTSA, allows for relief, for example, if an employee has made clear his disgruntlement and intent to harm the company by selling its secrets. *See* Uniform Trade Secrets Act § 2, 14 U.L.A. 437 (amended 1985). Recall also that employee general knowledge, while argues that inevitable disclosure developed as a justification for equity in certain employment situations, outside the sphere of trade secrets. Section II.C argues that *PepsiCo* visibly combined these two areas of law, giving the impression that inevitable disclosure was a doctrine arising out of trade secrets law, but never accounting for the inconsistencies in analysis. Section II.C is bolstered by a demonstration of the confusion exhibited by lower courts attempting to apply the *PepsiCo* inevitable disclosure analysis. Part II ultimately concludes that the standardization of definition and analysis proposed in Part I that would fit inevitable disclosure into trade secret law is supported by the historical development of both areas of law.

A. *The Uniformity of Trade Secrets Law*

Trade secrets are governed by state law.[69] Normally that fact might mean the analysis is state- or region-specific, but most states have adhered to the definitions of trade secrets found in the Restatement of

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obtained from the employer, is not considered a trade secret. As demonstrated, this aspect ultimately creates the gap inevitable disclosure must fill.

The proposals of other authors are each unique and creative but lack coherence with the rest of trade secret law. Lowry proposes a concurrent property interest solution — analogous to the situation of the dissolution of community property marriages where partition of tenancies in common is done "in kind" when possible and by judicial sale otherwise. *See* Lowry, *supra* note 14, at 540-41. She concludes that a concurrent property interest approach is the best method by which to promote fairness to employees while still protecting employers. Unfortunately, she attempts to impose a foreign structure onto a distinct area of law and fails to provide a framework for judges faced with more difficult facts. *Id.* at 544 ("The concurrent property doctrine is not a panacea for all uncertainties and inequities in trade secret lawsuits where disputed information has become inextricably tied to occupational mobility."). Jay Koh takes a different approach. *See* Koh, *supra* note 13, at 286 n.87 ("[T]his Article focuses on inconsistencies in the methodology that courts use to determine inevitability of misappropriation . . . and the remedies that courts apply . . . . [T]his Article rejects the concurrent property rights regime that Lowry suggests . . . and instead suggests that the law of accession provides a better property model . . . ."). Koh's solution is based on an ancient property law theory of accession that developed to deal with physical property that was altered or improved by another. *Id.* at 321:

> [I]n short, accession vests title and control of a combined piece of property in the owner of its principal parts or in its primary transformer. Accession then directs the title holder to reimburse the owner of the secondary parts of a combined piece of property or its secondary transformer for her lesser contribution.

Id. But Koh's solution is subject to the same criticisms that he lays on Lowry — it provides no justification or guidance to courts when faced with innocent employees and employers, one of whom will be harmed by any remedy. Koh, *supra* note 13, at 316 (criticizing the recognition of employee ownership interests for "jeopardizing the existing and important conceptions of unified ownership of trade secrets"), 317 (arguing that "[Lowry's] system provides no justification for, or guidance to, the proportion of ownership that should be allocated to each . . . .").

69. *See* K-2 Ski Co. v. Head Ski Co., 506 F.2d 471, 473 (9th Cir. 1974). Nevertheless, as Holmes recognizes, trade secrets actions often end up in federal courts due to diversity jurisdiction or as a pendent state claim attached to a claim under federal law, such as patent or trademark. *See* HOLMES, *supra* note 2, § 2.01, at 2-3 n.3 (2001).

Torts.[70] The Restatement of Torts dropped trade secrets in 1979 but trade secrets are now addressed in the Restatement of Unfair Competition.[71] Furthermore, forty-two states and the District of Columbia have adopted the UTSA.[72] The definitions of misappropriation and trade secrets found in the uniform act are derived from common law history and comport with the general usage of most states.[73] In W.C. Holmes' treatise on intellectual property law, he recognizes that while trade secrets are governed by state law, they are examined through uniform, overarching principles.[74] Milgrim too discusses the uniformity of state decisions and the reasons why:

> While, by and large, decisions under the various UTSA will be determined by state courts in accordance with their interpretation of the form of the UTSA adopted by that particular state, there are two forces outside the state's own decisional mechanism that must be taken into account. First, of course, is the provisions of § 8 of the UTSA, which encourage uniformity of results among the various states enacting the

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70. PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES, CASES AND MATERIALS ON THE LAW OF INTELLECTUAL PROPERTY 122 (Rev. 3d ed. 1993).

71. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1995):

> A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others .... Liability for the appropriation of a trade secret thus rests on a breach of confidence or other wrongful conduct in acquiring, using, or disclosing secret information.

Id.; see also GOLDSTEIN, *supra note* 70; MILGRIM, *supra* note 26, § 1.01(1) at 1-19 to 1-20:

> Through conscious decision, the Reporters of the RESTATEMENT (SECOND) OF TORTS, omitted numerous sections of the original RESTATEMENT on the grounds that the subject matter covered falls outside traditional tort law, and are embraced within the law of Unfair Competition and Trade Regulations: "The rules relating to liability for harm caused by unfair trade practices developed doctrinally from established principles in the law of Torts, and for this reason the decision was made that it was appropriate to include these legal areas in the RESTATEMENT OF TORTS, despite the fact that the fields of Unfair Competition and Trade Regulation were rapidly developing into independent bodies of law with diminishing reliance upon the traditional principle of Tort law. In the more than 40 years since that decision was initially made, the influence of Tort law has continued to decrease, so that it is now largely of historical interest ....

Id.

72. *See* Uniform Trade Secrets Act, reprinted in 14 UNIFORM LAWS ANNOTATED: CIVIL PROCEDURAL AND REMEDIAL LAWS 438 (Master ed. 1990 & supp. 1997).

73. *See id.*

74. HOLMES, *supra* note 2, § 2.02 at 2-9 (2000) (commenting on the differences between the Restatement and UTSA approaches to trade secrets definitions and recognizing that the "precise manner in which the definition [of trade secrets] has been applied" has varied from court to court even within one state that has adopted the UTSA). Holmes also recognizes that many courts use some variation of the six factors found in the Restatement of Torts in order to evaluate trade secret cases, and concludes, after citing illustrative cases, that, "the courts have repeatedly emphasized two closely related factors as paramount: the item must be 'secret' and must not be 'public knowledge or of a general knowledge in the trade or business' (*Id.* at § 2-02, at 2-10, citing *Kewanee Oil Corp. v. Bicron Corp.*, 416 U.S. 470, 475 (1974)).

> UTSA. Second, are the general legal and/or equitable principles that may be deemed to be of overriding constitutional effect.[75]

As Milgrim recognizes here, the UTSA itself encourages uniform principles. A less abstract reason for uniformity is that, in today's national economy, workers frequently change jobs and move across state lines. It is in the best interests of corporations nationwide for states to decide inevitable disclosure cases uniformly.

The United States Supreme Court recognized the need for cogent trade secret law and analysis in *Kewanee Oil Co. v. Bicron Corp.*[76] The court in that case determined that federal patent law does not preempt protection under state trade secret law.[77] More importantly for this analysis, however, the Supreme Court recognized the basic principles behind trade secret law: "[t]he maintenance of standards of commercial ethics and the encouragement of invention."[78] The Court in *Kewanee* was interpreting Ohio law, but spoke in general terms about "trade secret law," thereby recognizing and acknowledging that while trade secret law is state law and specifics may differ, it is uniform in principle.[79] Speaking generally, the Court gave force to the argument that trade secrets not only follow a basic line of analysis across the country but also that they have a unique and distinct line of analysis as their own area of law.[80]

B. *The Early Development of Inevitable Disclosure*

While trade secrets developed into a distinct area of law, inevitable disclosure did not originate as a piece of the trade secret analysis. Early cases of inevitable disclosure sometimes employed various elements of trade secrets analysis, but determined the case by taking an

75. MILGRIM, *supra* note 26, § 1.01(3) at 1-44.

76. 416 U.S. 470 (1974).

77. *See id.* The Court reaffirmed this holding in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) (reaffirming the decision that state trade secret laws were not preempted by patent laws and citing aspects of trade secret law such as the fact that it provides far weaker protection than patent law because the product is not protected from copy or reverse engineering, but only misappropriation).

78. *Kewanee*, 416 U.S. at 475.

79. *Id.* at 475-76.

80. *See id.* at 493:

> Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other .... Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it. Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.

Id.

equitable approach, fashioning a solution analogous to an implied or constructive trust.[81] The constructive trust analogy is particularly apt because these courts sought a solution to a problem of an employee possessing a trade secret of his former employer, without the ability to sever it from his knowledge. The courts fashioned an equitable solution. They could not take the information away from the employee, so they found ways to compensate him for his loss of mobility protecting the company who actually owned the secret. In the same way, the implied constructive trust has long solved problems arising when a party holds actual property belonging to another.[82]

For example, in the 1960s a federal court in Michigan grappled with the distinction between an employee who threatens to disclose a trade secret and an employee who has made no threat but whose background knowledge is itself the problem.[83] That court recognized the unique remedial problems accompanying an inevitable disclosure case. The *Allis-Chalmers* court was unwilling to make the employee completely unemployable. In effect, the court made the former employee the constructive trustee of the secret information by prohibiting him from working on machines of similar design. While the analysis outlined in this Note leads to a similar outcome, the *Allis-Chalmers* court did not engage in the standard process of evaluating an alleged

81. DELUXE BLACK'S LAW DICTIONARY 1515, 1517 (6th ed., 1990) (describing a resulting trust and referencing the constructive trust as "[a] trust imposed by law when property is transferred under circumstances suggesting that the transferor did not intend for the transferee to have the beneficial interest in the property. — Also termed *implied trust* . . . ."); 76 AM. JUR. 2d *Trusts* § 200 (1992) ("A constructive trust — sometimes referred to as a legal fiction or a fiction of equity . . . is not a technical trust, but an implied trust."); *see also* Beatty v. Guggenheim Exploration Co., 122 N.E. 378, 380 (N.Y. 1919) ("A constructive trust is the formula through which the conscience of equity finds expression. When property has been acquired in such circumstances that the holder of the legal title may not in good conscience retain the beneficial interest, equity converts him into a trustee.").

82. *See* 76 AM. JUR. 2d *Trusts* § 201 (1992):

> The constructive trust remedy is not limited to instances of actual or constructive fraud but may arise because of equitable principles other than fraud . . . . Some courts have imposed a constructive trust where a confidential or fiduciary duty has been breached and a third party unjustly enriched as a result of that breach, even absent wrongdoing by the party unjustly enriched; *thus, under the constructive trust theory, equity may collect proceeds from an innocent party in order to protect the equitable rights of those who have suffered the wrong.*

Id. (emphasis added).

83. *See* Allis-Chalmers Mfg. Co. v. Cont'l Aviation & Eng'g Corp., 255 F. Supp. 645, 654 (E.D. Mich. 1966) ("The virtual impossibility of [defendant] performing all of his prospective duties for [his new employer] to the best of his ability, without in effect giving it the benefit of [plaintiff's] confidential information, makes a simple injunction against disclosure and use of this information inadequate."). The court thus granted an injunction allowing the defendant to work at the competitor but prohibiting work on the particular type of equipment about which he had internalized trade secrets of his former employer. *Allis-Chalmers* provided very little insight into the test it used to grant the injunction and left the reader with the feeling that the court felt an injunction to be appropriate but could not effectively reason under trade secrets law as to why. Inevitable disclosure gave it a solution that seemed equitable. *See id.*

trade secret violation. The court only used the trade secret concept to determine that a fiduciary interest existed.[84]

In 1978, a federal district court in Ohio used *Allis-Chalmers* as the sole citation to accompany the sentence: "There is considerable support for that proposition [inevitable disclosure] in the books."[85] Yet, the Ohio court also fashioned a solution that was equitable in nature — also much like a constructive trust.[86] This court limited the former employee's employability, but required the former employer to pay for that limitation. Several pre-*PepsiCo* courts used inevitable disclosure but the standards used by those courts to decide the cases varied.[87] For instance, some confused the determination of whether a trade secret existed and would be inevitably disclosed with the determination of the validity of a covenant not to compete or a confidentiality agreement.[88]

In 1985, one court used the words inevitable disclosure as a part of the steps of a standard trade secret analysis.[89] While this court did not provide any explanation or guidance and was not followed, its decision suggested two things: (1) the court was looking for an established doc-

84. The court did consider what might qualify as a trade secret. *See id* at 653. This is an important first step in what should become the doctrinal analysis.

85. Emery Indus., Inc. v. Cottier, No. C-1-78-474, 1978 U.S. Dist. LEXIS 15953 at *15 (S.D. Ohio Aug. 18, 1978). The plaintiff argued for barring the defendant from working for the competitor for a limited period of time because, "in the proposed position as president . . . it would be inevitable that he would use the very trade secret information which he has agreed not to use." *Id.* at *14-15. The *Emery* court determined "it is a necessary conclusion based on the facts that there is an inevitable and imminent danger of disclosure of plaintiff's trade secrets. It will be virtually impossible for the defendant to perform his prospective duties for [competitor] without in effect giving [competitor] the benefit of plaintiff's confidential information." *Id.* at *17. Except for determining that a threat of disclosure allowed an injunction in Ohio, the *Emery* court did not proceed into any deeper analysis of the elements of the "inevitable disclosure" than the discourse described above. *See id.*

86. *See supra* notes 81-82 (discussing the constructive trust analogy). As in the case of a constructive trust, this court was faced with the need to fashion an equitable solution that would serve the needs of the owner of the trade secret held by the employee, without creating inequity for the employee who did no wrong. This court took the bold step of actually crafting a de jure covenant not to compete by granting the injunction but requiring the plaintiff to pay compensation to the former employee who could not work in his chosen field. *Emery*, 1978 U.S. Dist. LEXIS 15953, at *19-20.

87. *See* E.R. Squibb & Sons, Inc. v. Hollister, Inc., No. 91-203, 1991 U.S. Dist. LEXIS 1395 (D.N.J. Feb. 5, 1991) (discussing the "imminent threat of disclosure" and the need for evidence of bad faith); Standard Brands v. Zumpe, 264 F. Supp. 254 (E.D. La. 1967) (determining inevitability of disclosure could not be presumed from employment in a managerial capacity); Travenol Labs., Inc. v. Turner, 228 S.E.2d 478 (N.C. Ct. App. 1976) (using the technical expertise of the defendant and the fact that the new employer had not sought out the employee prior to termination of the previous employment as a part of the determination of no inevitable disclosure).

88. Surgider Corp. v. Eye Tech., Inc., 648 F. Supp. 661, 695 (D. Minn. 1986).

89. *Id.* ("The fourth element of the trade secret cause of action requires proof that there is an intention on the part of the defendants to use or disclose the putative trade secrets, or alternatively, that under the circumstances of the case, there is a high degree of probability of inevitable disclosure.").

trine rather than just crafting an equitable solution without precedent; and (2) the literature and case law gave it the idea that inevitable disclosure was a standard element of trade secret analysis.

In some courts, inevitable disclosure of trade secrets became a part of the decision to grant a preliminary injunction pending the determination of the validity of the covenant not to compete.[90] Other courts equated inevitable disclosure with threatened misappropriation.[91] Even in 1990 at least one court still rested its decision to grant an inevitable disclosure preliminary injunction on an early equity case, without providing much in the way of explanation or analysis, except to imply that the facts of the early equity case were similar to the problem at hand.[92] Despite the obvious connection between inevitable disclosure and trade secrets, the two developed separately. Inevitable disclosure became nothing more than a set of words put into quotation marks to solve a problem for which traditional trade secrets analysis could fashion no solution. The doctrine was in disarray when the Seventh Circuit adopted it in *PepsiCo.*

90. *See* Modern Controls, Inc. v. Andreadakis, 578 F.2d 1264, 1270 (8th Cir. 1978) (acknowledging that trade secrets could be disclosed even in the best of good faith and granting preliminary injunction pending an action challenging a covenant not to compete would likely be valid).

91. *See* Int'l Bus. Mach. Corp. v. Seagate Tech., Inc., 941 F. Supp. 98, 101 n.1 (D. Minn. 1992) (relying on *FMC v. Varco* and concluding that "the Eighth Circuit has neither accepted nor rejected the 'inevitable disclosure' doctrine where the Fifth Circuit Court of Appeals enjoined an employer from 'placing or maintaining [the employee] in a position that poses an inherent threat of disclosure"); *E.R. Squibb & Sons, Inc.* 1991 U.S. Dist. LEXIS 1395, at *20 (discussing the 'imminent threat of disclosure' and the need for evidence of bad faith in order to prove inevitable disclosure and concluding that, "[u]nlike *SI Handling*, Squibb has not demonstrated that Leise intends to disclose, or that Hollister intends to use, Squibb's protected information. In addition, unlike *SI Handling*, Hollister has taken measures to protect against Leise's disclosure of Squibb's confidential information"); Teradyne, Inc. v. Clear Communications Corp., 707 F. Supp. 353, 356 (N.D. Ill. 1989) (commenting that the allegation that a high degree of probability of inevitable and immediate disclosure constitutes a threat to misappropriate trade secrets may have merit, recognizing that there is caselaw to justify an injunction against an employee working in a specialized field based on knowledge gained from a former employer, but deciding, "[h]ere there is no allegation that defendants have in fact threatened to use Teradyne's secrets or that they will inevitably do so. An allegation that the defendants said they would use secrets or disavowed their confidentiality agreements would serve this purpose"). A very recent note on this topic also falls prey to the assumption that inevitable disclosure is addressed in this manner in the UTSA. Miller, *supra* note 11, at 50.

92. *See* Norand Corp. v. Parkin, 785 F. Supp. 1353, 1355 (N.D. Iowa 1990) ("The *Emery* court reasoned that an injunction prohibiting non-disclosure of proprietary information would be insufficient as the defendant in that case could not help but use his knowledge in his employment with the competitor company. Consequently, the court essentially created a non-compete agreement."). The *Norand* court essentially bypassed all of the intervening cases and cited to *Emery Industries, Inc. v. Cottier*, No. C-1-78-474, 1978 U.S. Dist. LEXIS 15953, at *17 (S.D. Ohio Aug. 18, 1978) to justify its decision to grant a preliminary injunction based on the likelihood of success in proving the need for a court created non-compete agreement. While the use of *Emery* was a wise move by *Norand*, the lack of acknowledgement of any doctrine of inevitable disclosure is telling.

This Note argues that inevitable disclosure developed separately from trade secrets, and, to avoid confusion, divides the two. The early cases, however, demonstrate at least an awareness of the connection to trade secrets law and judges may have even thought that the two would develop in conjunction with each other. In fact, 30 years ago, two cases that could easily be defined as inevitable disclosure cases sparked the interest of trade secrets practitioners.[93] At least one author predicted, based on these two early cases, that inevitable disclosure would become an important piece of trade secrets analysis.[94] That same author also thought inevitable disclosure needed definition

93. *See* B.F. Goodrich Co. v. Wohlgemuth, 192 N.E.2d 99, 105 (Ohio Ct. App. 1963) (involving two companies competing to design space suits for the Apollo project). The court recognized that because of Wohlgemuth's highly technical and specialized expertise, his was a unique case:

> We have no doubt that Wohlgemuth had the right to take employment in a competitive business, and to use his knowledge (other than trade secrets) and experience, for the benefit of his new employer, but a public policy demands commercial morality, and courts of equity are empowered to enforce it by enjoining an improper disclosure of trade secrets known to Wohlgemuth by virtue of his employment. Under the American doctrine of free enterprise, Goodrich is entitled to this protection.

Id.; *see also* E.I. duPont de Nemours & Co. v. Am. Potash & Chem. Corp., 200 A.2d 428, 436 (Del. Ch. 1964) (dealing with an employee who worked on highly specialized chemical processes and saying with relation to the speculative nature of a finding of inevitability:

> Courts are frequently called upon to draw such conclusions based on a weighing of the probabilities, and while a conclusion that a certain result will probably follow may not ultimately be vindicated, courts are nonetheless entitled to decide or "predict" the likely consequences arising from a given set of facts and to grant legal remedies on that basis.).

The *American Potash* court also believed its decision to be of significance for future trade secrets cases:

> The court fully recognizes that this is a case of great social and industrial significance both on the question of the right to relief and, if established, the scope thereof .... The "interests" involved are as easy to state as they are difficult to protect, particularly in the face of the ever-increasing complexity of present day technology.

Am. Potash, 200 A.2d at 437.

94. An insightful note in the *Virginia Law Review* described these two cases and used them to demonstrate that employee knowledge of trade secrets would pose increasingly complex problems for courts. That author recognized then that employee knowledge was becoming increasingly intertwined with employer trade secrets in a way that would cause much difficulty with the concept of trade secret misappropriation:

> If it were an easy matter to decide whether particular knowledge is a trade secret or part of a technical employee's general competence; if it were easy to determine in a trial whether particular knowledge has been disclosed; if it were easy to assess damages which realistically compensate the owner of a secret improperly revealed — then industrial piracy would present few problems for the lawyer .... An injunction against disclosure does not solve the first employer's problem of proving disclosure if the employee is undeterred and the injunction must be enforced; nor does such an injunction reach involuntary or inadvertent disclosure, which is a real possibility even if the employee consciously attempts not to reveal trade secrets to his new employer.

Note, *Inductions to Protect Trade Secrets — The* Goodrich *and* DuPont *Cases*, 51 VA. L. REV. 917, 920 (1965).

as a trade secrets doctrine.[95] Despite that author's prescient projections, however, the two have not been combined completely.

C. PepsiCo*'s Undefined Doctrine*

In 1995, the Seventh Circuit's opinion in *PepsiCo* gave inevitable disclosure prominence as a "doctrine" within the larger structure of trade secrets law and purported to define it. This decision sparked a proliferation of opinions in state and federal courts and an abundance of scholarly comment. Yet, the Seventh Circuit did not delineate a doctrine that fit neatly into the standard trade secrets format. As a result, the many courts that have tried to follow *PepsiCo* have failed to apply the doctrine of inevitable disclosure uniformly. These courts' inconsistencies demonstrate the lack of doctrinal framework within the *PepsiCo* decision.

1. PepsiCo's *Inevitable Disclosure Decision*

In *PepsiCo*, as in all inevitable disclosure cases, the court was asked to reconcile the employer's rights in the trade secret and the employee's rights in mobility. In *PepsiCo*, the Seventh Circuit's solution was to rest its decision in the doctrine of inevitable disclosure. As a result, *PepsiCo* sparked a modern fascination with this relatively old theory and granted it the title and importance of "doctrine."[96]

Unfortunately, the *PepsiCo* court employed a mode of analysis that is difficult to pinpoint and seems even harder for courts to follow in other cases.[97] The *PepsiCo* court began by acknowledging that defendants did not dispute the existence of the plaintiff's trade secrets.[98]

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95. *Id.*

96. *See, e.g.*, Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1118 (N.D. Cal. 1999) ("The *PepsiCo* decision has given new life to the theory of inevitable disclosure. Previously, courts had recognized the theory, but were reluctant to apply it because of strong public policies in favor of employee mobility.").

97. Even Milgrim's treatise demonstrates confusion with the doctrine and *PepsiCo*'s interpretation. *See* MILGRIM, *supra* note 26, at § 5.02(3)(e) n.47a:

> Inasmuch as *PepsiCo* pushed the inevitability doctrine into new — and arguably, inappropriate — areas, enjoining the employment of the former marketing director of an insignificant participant in the field by the industry leader, the district court's reliance suggests that *PepsiCo*'s value will not be in what was its aberrational holding, based seemingly upon the trial court's satisfaction that the individual defendant had been less than forthright in testimony, but rather for the mainstream proposition that employees have the right to engage in competitive employment and there must be a constellation of factors before that competitive employment, absent a valid restrictive covenant, will be enjoined.

Id.

98. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1268 (7th Cir. 1995). This is significant because information's status as a trade secret is sometimes a hard-fought issue in the courts. *See* MILGRIM, *supra* note 26, at § 1.09:

> [T]his section categorizes many of the cases in which a court has expressly or by implication

The court continued by conflating threatened misappropriation with inevitable disclosure and using as its base of support cases of threatened misappropriation.[99] Then the court determined that substantial evidence existed that Redmond possessed "extensive and intimate knowledge" about PCNA's strategic goals.[100] Reiterating an assertion of an earlier case, the court recognized 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 . . . .' "[101] While acknowledging that this was not a "typical" trade secret situation, the court determined that it fell within the realm of protection.[102]

The court finished by muddying the analysis and noting that the district court found that Redmond's actions in pursuing his new job displayed a lack of candor and "proof of [his and his new employer's] willingness to misuse PCNA trade secret[s]."[103] Thus, the court's standard seemed to require a showing that a trade secret exists, a showing beyond just intimate knowledge of the trade secret by the employee, and finally some significance to an intent to use the secret. The *PepsiCo* court did not, however, clearly delineate its actions. Its final reasoning seemed to rest on a belief that Redmond or Quaker would act in bad faith and a "demonstrated inevitability" that Redmond would rely on the trade secrets in his new position.[104] Therefore, it is possible the *PepsiCo* court had before it a case of threatened misappropriation, and at the least muddied the analysis by suggesting that the injunction was supported by an indication of bad faith.

> found a trade secret to exist or not to exist . . . perusal of the following list will show many instances, particularly with reference to customer lists and business . . . secrets, where different jurisdictions reach contrary conclusions concerning trade secret status with respect to essentially identical matters.

Id.

99. *See PepsiCo*, 54 F.3d at 1268.

100. *Id.* at 1269.

101. *Id.* at 1268 (quoting AMP, Inc. v. Fleischhacker, 823 F.2d 1199, 1207 (7th Cir. 1987)).

102. *See id.* at 1269 ("This type of trade secret problem may arise less often, but it nevertheless falls within the realm of trade secret protection under the present circumstances."). Oddly, the *PepsiCo* court cited FMC Corp. v. Varco Int'l, Inc., 677 F.2d 500, 504 (5th Cir. 1982), for the proposition that, "[e]ven assuming the best of good faith, [defendant] will have difficulty preventing his knowledge of . . . manufacturing techniques from infiltrating his work." *PepsiCo*, 54 F.3d at 1270. This suggests that the court recognized that inevitable disclosure was not a "threatened disclosure" nor did it require bad faith. The court does not, however, rest on that analysis.

103. *PepsiCo*, 54 F.3d at 1270.

104. *Id.* at 1271 (upholding the injunction based on the "demonstrated inevitability that Redmond would rely on PCNA trade secrets in his new job at Quaker [and] the district court's reluctance to believe that Redmond would refrain from disclosing these secrets in his new position . . .").

2. *Courts' Misapplication of* PepsiCo

Inevitable disclosure did not develop with a coherent definition consistent with a typical trade secrets determination because it developed outside of trade secrets law. The Seventh Circuit failed to supply such a definition. *PepsiCo*'s legacy includes numerous bar journal articles and law review notes and articles attempting to describe the structure of the *PepsiCo* decision and its implications for trade secrets law in general and preventative client counseling in particular.[105] While *PepsiCo* sparked a proliferation in the use of the inevitable disclosure doctrine,[106] it did not provide a coherent standard for subsequent courts to follow. Other courts attempting to "follow" *PepsiCo* have diverged, without demonstrating a clear understanding of the rule they purport to follow.

The first group of cases, in which courts say they have used *PepsiCo* to obtain equitable results even when inevitable disclosure may not have directly applied, cite *PepsiCo* as containing some factor not actually present in the *PepsiCo* opinion. They appear to be looking for some sort of authority on which to base their opinions. For example, in *Bridgestone/Firestone, Inc. v. Lockhart*,[107] a district court in Indiana first decided that the facts did not indicate any reason to believe the employee would reveal the secret.[108] This finding should have been the end of the analysis because once the court finds that the employee will not reveal the secret in his daily duties or in bad faith, the court has no need for a remedy. Oddly, the *Lockhart* court did not end its analysis there but proceeded to distinguish *PepsiCo*.[109] This court had no need for *PepsiCo* because it had already concluded that the defendant

105. *See, e.g.*, D. Peter Harvey, *"Inevitable" Trade Secret Misappropriation After* PepsiCo, Inc. v. Redmond, 537 PLI/Pat 199 (1998); Koh, *supra* note 13; Scott D. Marrs, *Trade Secrets — Preliminary Relief In Trade Secret Cases*, 61 TEX. B.J. 880 (1998); Alan L. Sullivan, *Is It Really 'Inevitable'? Dynamics of a Preliminary Injunction Proceeding in a Scientific Trade Secrets Case*, SC71 ALI-ABA 159 (1998); Weinstein, *supra* note 13; Whaley, *supra* note 14; Johanna L. Edelstein, Note, *Intellectual Slavery?: The Doctrine of Inevitable Disclosure of Trade Secrets*, 26 GOLDEN GATE U. L. REV. 717 (1996).

106. A search of Shepard's citations conducted in January 2002 reveals 79 cases citing the *PepsiCo* decision for the inevitable disclosure proposition. *See also* Maxxim Medical, Inc. v. Michelson, 51 F. Supp. 2d 773, 784 (S.D. Tex. 1999) ("California has adopted the Uniform Trade Secret Act ("UTSA"). Under the UTSA, a court may enjoin actual or threatened misappropriation .... In the landmark case of *PepsiCo, Inc. v. Redmond* ... the court applied this provision of the UTSA to create what is now considered the 'inevitable disclosure' doctrine." (citations omitted)).

107. 5 F. Supp. 2d 667 (S.D. Ind. 1998).

108. *See id.* at 682.

109. *See id.* ("Because misappropriation does not appear to be inevitable, or even seriously threatened, this case is different from *PepsiCo v. Redmond*.").

would not disclose the secret.[110] The only explanation offered in the court's opinion came in the form of references to inevitable disclosure as a subset of threatened misappropriation. The procedure outlined in this Note would have given the *Lockhart* court a standard analysis to follow. Rather than having to interpret the *PepsiCo* case and look for parallels, the court could have stopped at the point of determining that no disclosure of trade secret was threatened nor was the employee capable of inevitably disclosing it.

Similarly, in *Glaxo Inc. v. Novopharm Ltd.*,[111] the court first found that the plaintiff company made no efforts to protect secrets.[112] The court then proceeded to cite *PepsiCo* and define inevitable disclosure.[113] Finally, the court renamed the doctrine the "inevitable discovery/contempt theory"[114] and rejected use of the doctrine because there was no on-going relationship between the defendant and plaintiff.[115] This has nothing to do with a trade secrets analysis. This court missed the important point that if there were no efforts made to protect secrets, then no trade secret existed. There was no need to reach the employee's knowledge because the company did not adequately make out its prima facie case. Far from looking for a standard analysis, *Glaxo* created its own and seemed to base it on a factor not even present in the *PepsiCo* decision.

The second group of cases interpret the *PepsiCo* definition of inevitable disclosure as a subset of threatened misappropriation.[116] *Merck & Co. Inc. v. Lyon* exemplifies this type of decision.[117] That court, citing *PepsiCo*, determined that North Carolina recognized a number of factors to be considered:

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110. Possibly, this piece of dictum was meant to indicate that that court itself had considered whether disclosure might be "inevitable" and discarded the idea. Even if that is the case, it still demonstrates a lack of recognition or understanding of a coherent doctrine.

111. 931 F. Supp. 1280, 1302 (E.D.N.C. 1996).

112. Recall, this means that there are no trade secrets that could have been misappropriated by the employee. *See supra* note 19.

113. *Glaxo*, 931 F. Supp. at 1303. Oddly, the *Glaxo* court defined inevitable disclosure as being applicable only to "narrow technological fields" where an employee could not "forget" things learned on the job. While technological fields are quite susceptible to inevitable disclosure problems, Redmond's job in *PepsiCo* was not one in a "narrow technological field." *Id.*

114. *Id.*

115. *Id.*; *see also* Lumex, Inc. v. Highsmith, 919 F. Supp. 624 (E.D.N.Y. 1996) (claiming to have a case different from *PepsiCo* because both parties acted in reasonably good faith but deciding the case based on inevitable disclosure anyway).

116. The reason inevitable disclosure becomes confusing for many courts is because the UTSA covers actual and threatened misappropriation. *See* Uniform Trade Secrets Act § 2, 14 U.L.A. 437 (amended 1985) ("Actual or threatened misappropriation may be enjoined.").

117. *See* Merck & Co. Inc. v. Lyon, 941 F. Supp. 1443, 1459-60 (M.D.N.C. 1996).

> (1) The circumstances surrounding the termination of employment, (2) the importance of the employee's job or position, (3) the type of work performed by the employee, and (4) the kind of information sought to be protected and the value or need of the competitor for it. . . . Thus . . . when the trade secret was clearly established and the possibility of disclosure high and the value to the competitor great, an injunction would issue even when there had been no bad faith or underhanded dealing by the former employee or the competitor.[118]

The *Merck* court seemed surprised that an injunction could issue even without "bad faith or underhanded dealing." The court went on to analyze the application of the doctrine in other states. It found that other states considered the degree of competition between the old and new employer, the new employer's efforts to safeguard the former employer's trade secrets, and the former employee's lack of forthrightness.[119] The court also noted that the employee's misrepresentations provided a basis for questioning his ability to comply with the confidentiality agreement — a clear case of threatened misappropriation.[120] The *Merck* opinion is highly dependent on drawing parallels to *PepsiCo*, but demonstrates that the issue before the court was threatened misappropriation. It is quite likely the *Merck* facts presented a fine line between threatened misappropriation and inevitable disclosure. Because the *Merck* court did not have a standard analysis to follow, the court conflated the two. Also, rather than simply trying to draw parallels to *PepsiCo* without a coherent underlying structure on which to base those parallels, the *Merck* court could have benefited from looking at the solutions used by other courts following the same analysis.

In another example, a district court in New York determined that the decision in *PepsiCo* was heavily influenced by the " 'lack of forthrightness' and 'out and out lies' by the former employee."[121] This court distinguished its case from *PepsiCo* because there was no evidence of any attempt at deception. The court, therefore, decided that it was *not following PepsiCo* when it granted an injunction based on its determination that, " 'even assuming the best of good faith, it is doubtful whether the defendant could completely divorce his knowledge of the

118. *Id.*

119. *Id.* at 1460.

120. *Id.* In *Glaxo*, the court cited *PepsiCo* and other cases and said of inevitable disclosure, "the latter doctrine bars the employment of a competitor's former employee who had developed intimate expert knowledge of that competitor's confidential information in a narrow technological field, on the grounds that it would not be possible for that employee to 'forget' or refrain from relying upon the confidential information," suggesting its own interpretation of the standard set by *PepsiCo*. *Glaxo*, 931 F. Supp. at 1303.

121. Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 633 (E.D.N.Y. 1996). Arguably, these were factors in the *PepsiCo* decision, but the decision was not heavily influenced by them, nor did they even appear necessary to the decision.

trade secrets from any . . . work he might engage in' with [the new employer]."[122] Ironically, the New York court's comments demonstrate that its holding was based on the real definition of inevitable disclosure. Yet the court explained that by doing so it was *deviating* from *PepsiCo*. Again, the court's dependence on the *PepsiCo* facts prevented a bigger-picture analysis as a standard part of the trade secrets inquiry.

A Texas district court[123] recently found that the factors used by the *PepsiCo* court included: the employee's possession of extensive trade secret knowledge above and beyond general skills; the responsibilities with the old and new employers were parallel; and deceit on the part of the defendant.[124] This is an even more dangerous interpretation of *PepsiCo*. As demonstrated above, some courts mistakenly assume that *PepsiCo* provides a clear definition and then follow or deviate by drawing parallels. But this court gives the impression that a coherent doctrine of inevitable disclosure exists and is exemplified by *PepsiCo* and then, making matters worse, misinterprets *PepsiCo*.[125]

In a final category of post-*PepsiCo* cases, some courts reject outright the *PepsiCo* analysis.[126] For instance, the Northern District of Iowa, in 1997, completely redefined the doctrine for its own use.[127]

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122. *Id.* at 635 (citing Monovis, Inc. v. Aquino, 905 F. Supp. 1205, 1234 (W.D.N.Y. 1994)).

123. *See* Maxxim Med., Inc. v. Michelson, 51 F. Supp. 2d 773, 786 (S.D. Tex. 1999) ("Although only a California Superior Court has had the opportunity to determine whether to follow *Redmond*, this Court believes that the California Supreme Court would follow the overwhelming majority of other jurisdictions to do so."), *reversed*, 182 F.3d 915 (5th Cir. 1999). While the 5th Circuit reversed this case without opinion, it is very possible that the court recognized that the *Maxxim* court had placed too much faith in the steadfastness of the inevitable disclosure doctrine and its place in the law of trade secrets. Only after this opinion did California officially recognize and accept the inevitable disclosure doctrine at the appellate level (the *Maxxim* decision was decided based on California law).

124. *See Maxxim*, 51 F. Supp. at 785-86. Oddly enough, the interpretations of the "bad blood" as a part of the *PepsiCo* decision seem to grow stronger as the years go on. The actual decision seems to mention the lack of forthrightness as an additional reason after determining the inevitable disclosure while the *Merck* court emphasized it as a major factor and the *Maxxim* court calls it "deceit." Even those courts that try to base their decisions on *PepsiCo* do not interpret it uniformly. This court believed the *Bridgestone/Firestone* decision to be the only one which had not chosen to follow *PepsiCo* and concluded that *Bridgestone/Firestone* had done so only because of factual differences. *See id.* at 786.

125. As another example, in Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Servs., Inc., 987 S.W.2d 642, 644 (Ark. 1999), a state supreme court cited *PepsiCo*, among others, and then based its decision on factors clearly evidencing threatened misappropriation.

126. Also in this third category of cases are those that simply ignore the existence of *PepsiCo*. DoubleClick, Inc. v. Henderson, No. 116914/97, 1997 N.Y. Misc. LEXIS 577, *76 (N.Y. Nov. 5, 1997), relied on Lumex, Inc. v. Highsmith, 919 F. Supp. 624 (E.D.N.Y. 1996) to say "this finding is bolstered by the fact that there is a high probability of 'inevitable disclosure' of trade secrets in this case. Injunctive relief may issue where a former employee's new job function will inevitably lead her to rely on trade secrets belonging to a former employer." The court held that the former employee would likely disclose plaintiff's trade secrets "to aid his new employer and his own future . . . ." This court had no real standard in

> [Plaintiff] argued that [defendant] will 'inevitably' disclose trade secrets if he works for [new employer]. This Court has read that argument broadly in order to decide whether the analysis supports [plaintiff's] claim that [defendant] violated the noncompetition agreement because he is 'likely' to disclose proprietary information. This Court has therefore assumed for the purposes of this analysis that "likely to disclose" is the same as "inevitably will disclose."[128]

That same court used *PepsiCo* to show that a court has discretion to decide whether the defendant's previous untrustworthiness could be the basis for an injunction.[129] The Iowa court then held that the plaintiff had shown deceit but no inevitability and refused the injunction.[130] It is difficult to determine exactly how this court interpreted the *PepsiCo* decision, but the Iowa court obviously rejected the inevitable disclosure analysis.

As this Note has demonstrated, uniformity is crucial to trade secrets law and is one of the major objectives of the UTSA and the courts of the majority of states as a result. Trade secrets law is the most appropriate area of law in which to ground inevitable disclosure. As such, inevitable disclosure should be made a standard part of the analysis and should be defined uniformly by courts across the country. *PepsiCo* may have provided an example to follow, but these courts do not follow it consistently, nor do they even all interpret it in the same way. As a result, inevitable disclosure is in need of formal definition beyond simply citing *PepsiCo* as the example. This Note has attempted to provide that definition and standard analysis.

CONCLUSION

This Note argues that courts should adopt a uniform definition of the inevitable disclosure doctrine that conforms to standard trade secret analysis. Such a result would fill the gap that exists between threatened misappropriation and general employee knowledge. This result makes sense based on the development of the inevitable disclosure doctrine. This solution provides greater protection for employers and employees by offering certainty at the outset of any employment relationship. Further, it grants courts discretion at the remedy phase to protect the rights of employees.

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mind and in fact appeared to decide the case based on a threatened misappropriation while using the phrase "inevitable disclosure" to adorn the opinion.

127. *See* APAC Teleservices, Inc. v. McRae, 985 F. Supp. 852, 860-61 (N.D. Iowa. 1997).

128. *Id.* at 860 n.6.

129. *See id.* at 860-61.

130. *Id.* at 861.