The Doctrine of Inevitable Disclosure

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I.

Introduction

In an economy that is increasingly high-tech and fiercely competitive, knowledgeable and savvy employees are invaluable. At the same time, employees are exhibiting less company loyalty than in decades past and are frequently leaving their jobs to work for competitors or for themselves. In this changing climate, companies are rightfully concerned about preventing their prior employees from disclosing trade secrets, and are increasingly looking to the courts to offer greater protections.

Protected trade secrets can range from technical knowledge, formulas or ingredients, to strategic decision-making such as pricing, marketing strategies, product development and budget information. Traditionally, the courts have intervened on behalf of the employer in the face of actual or threatened misappropriation of trade secrets. However, the doctrine of inevitable disclosure extends traditional trade secret misappropriation principles to cases where there is no evidence of actual or threatened misappropriation.

A. *Underlying Rationale*

The doctrine of inevitable disclosure is based on the notion that no matter how good an employee's intentions, it is impossible for an employee to compartmentalize the knowledge or experience gained from prior employment. Thus, the employee will "inevitably" disclose that information if he or she is required to do the same or similar work for a new employer.[1]

B. *Application of the Doctrine*

Courts applying the inevitable disclosure doctrine to the benefit of the former employer essentially issue an injunction prohibiting the employee from going to work for competitors.[2]

When implementing the doctrine and issuing injunctive relief, they have considered whether: (1) the new employers in question are direct competitors providing the same or very similar products or services; (2) the employee's new position is nearly identical to the old one, such that the employee could not reasonably be expected to fulfill the new job responsibilities without utilizing trade secrets of the former employer, and (3) the trade secrets at issue are highly valuable to both the former and the present employer.[3]

II.

PepsiCo Inc. v. Redmond

PepsiCo Inc. v. Redmond[4] is the leading case on inevitable disclosure. In that case, PepsiCo sought to enjoin its former employee, Redmond, from going to work for a competitor, Quaker Oats Co. (Quaker). PepsiCo and Quaker were competing head to head in the "sports drink" and "new age" drink markets. At the time, Quaker held the market niche with its sports drink "Gatorade," and PepsiCo had just released the rival, "All Sport." Similarly, with respect to new age drinks, Quaker had just purchased Snapple Beverage Corp., and PepsiCo was entering joint ventures with Lipton Company and Ocean Spray Cranberries, Inc.

The plaintiff, William Redmond, Jr., worked for PepsiCo in its North America division from 1984 to 1994. In 1994, Redmond was the general manager of the business unit covering all of California -- a unit having annual revenues of more than 500 million dollars and representing twenty percent of PepsiCo's profit for all of the United States. Through his position at PepsiCo, Redmond had access to inside information and trade secrets. Accordingly, he signed a confidentiality agreement.

Beginning in May 1994, another former PepsiCo employee, who had defected to head Quaker's Gatorade division, asked Redmond to begin work for Quaker as vice president of on-premise sales for Gatorade. Redmond declined the position, but continued to negotiate with Quaker. In November 1994, Redmond accepted an offer at Quaker to be vice president of field operations for Gatorade.

PepsiCo filed suit, seeking a temporary restraining order to enjoin Redmond from assuming his duties at Quaker and to prevent him from disclosing trade secrets or confidential information to his new employer. PepsiCo presented evidence of trade secrets and confidential information to which Redmond had access, including PepsiCo North America's strategic plan and its annual operating plan. The strategic plan included financial goals, strategies for manufacturing, production, marketing, packaging and distribution for the next three years. The annual operating plan similarly contained financial goals, marketing plans, promotional event calendars, growth expectations, pricing information and operational changes for the year.

PepsiCo argued that Redmond inevitably would disclose the trade secrets and confidential information to Quaker in his new position. Redmond responded that his primary responsibility as vice president at Quaker would be integrating Gatorade and Snapple distribution, and that such integration would be carried out according to a pre-existing plan. Thus, his knowledge of PepsiCo's strategies were irrelevant.

In deciding the case, the Seventh Circuit agreed with the plaintiff's position:

Redmond cannot help but rely on [PepsiCo's] trade secrets as he helps plot Gatorade and Snapple's new course, and . . . these secrets will enable Quaker to achieve a substantial advantage by knowing exactly how [PepsiCo] will price, distribute, and market its sport drinks and new age drinks and [be] able to respond strategically.[5]

The court also analogized PepsiCo's position as similar to that of a coach who had lost a valuable player to the opposing team, playbook in hand, on the night before a decisive game. Accordingly, it affirmed the district court order enjoining Redmond from assuming his position at Quaker and preventing him forever from disclosing PepsiCo trade secrets and confidential information.

III.

Adoption of Inevitable Disclosure

A majority of the jurisdictions addressing the issue have adopted some form of the inevitable disclosure doctrine.[6] For example, the Ohio Court of Appeals held in *Proctor & Gamble Co. v. Stoneham*[7] that the employee inevitably would likely disclose his old employer's trade secrets because his position with the new employer involved direct competition between products that the employee formerly supported and new products for which he would assume responsibility. The employee in question was formerly in upper-management at P&G and had access to P&G's global business goals and strategies related to hair care, market research results, financial data, profit projections, and research and development for new products. Additionally, he had helped to develop a confidential ten-year marketing plan for one of P&G's new hair conditioning products. The employee's new position involved the support and marketing of VO5 hair condition products, which directly competed with P&G's hair care products. The court noted that a competitor could use the employee's knowledge of P&G's confidential information to avoid the cost and time-consuming steps that P&G took to develop market research information, to exploit the weaknesses of P&G products, and to replicate P&G's new products. Therefore, the appellate court reversed the trial court's denial of a preliminary injunction and remanded the case for further proceedings.

The United States District Court for Connecticut likewise utilized the doctrine of inevitable disclosure in enforcing a covenant not to compete.[8] The employee, Stratman, worked as the director of electronic design and development at Branson Ultrasonics. In that position, he had access to and became familiar with confidential information concerning a new product line that Branson intended to introduce later that year. Stratman had signed both a one-year covenant not to compete and a confidentiality agreement. Notwithstanding these agreements, Stratman left Branson to work for Dukane, a direct competitor. Branson then sued to enforce the covenant not to compete against Stratman. In reaching the decision to enforce the non-compete agreement, the district court noted:

When, as here, a high degree of similarity between an employee's former and current employment makes it likely that the former employer's trade secrets and other confidential information will be used and disclosed by the employee in the course of his new work, enforcement of a covenant not to compete is necessary to protect against such use and disclosure.[9]

Accordingly, the court granted a preliminary injunction barring Stratman from assuming his position at Dukane.

IV.

Rejection of Inevitable Disclosure

A small, but growing minority of jurisdictions have rejected outright the doctrine of inevitable disclosure.[10] Courts which strongly favor employee mobility view the inevitable disclosure doctrine as essentially imposing a de facto covenant not to compete. These courts observe that the former employer's concerns over trade secrets could have been addressed at the outset by negotiating and drafting such a covenant when the employment relationship commenced.

A. *Whyte v. Schlage Lock Co.*

In *Whyte v. Schlage Lock Co.*,[11] the plaintiff Whyte worked as Schlage's vice-president of sales and was responsible for sales to Home Depot, Sears, Lowe's, and Menard's. At the time, Kwikset was Schlage's direct competitor in these markets. After successfully negotiating a favorable deal for Schlage with Home Depot, Whyte was offered a position at Kwikset as vice-president of sales for national accounts. His duties at Kwikset would substantially replicate those at Schlage, including handling the Home Depot account. Schlage brought suit seeking an injunction against Whyte under the theory of inevitable disclosure.

The California Court of Appeal acknowledged that the facts of the case were strikingly similar to *Redmond.* However, the court chose to reject the doctrine of inevitable disclosure, reasoning that, "[t]he decisions rejecting the inevitable disclosure doctrine correctly balance competing public policies of employee mobility and protection of trade secrets."[12] The court ruled that the inevitable disclosure doctrine altered the employment relationship after the fact and without the employee's consent. It went on to note, "[a]s a result of the inevitable disclosure doctrine, the employer obtains the benefit of a contractual provision it did not pay for, while the employee is bound by a courtimposed contract provision with no opportunity to negotiate the terms or consideration."[13]

B. *EarthWeb, Inc. v. Schlack*

In *EarthWeb, Inc. v. Schlack,*[14] a federal district court in New York addressed application of the inevitable disclosure doctrine in the context of internet activity. Schlack, the EarthWeb vice president responsible for website content, accepted a job with competitor International Data Group, Inc. ("IDG"). EarthWeb brought suit to enjoin Schlack from accepting his new position at IDG and from disclosing or revealing EarthWeb's trade secrets. The trade secrets and other confidential information subject to likely disclosure by Schlack were grouped into four categories: (1) strategic content planning; (2) licensing agreements and acquisitions; (3) advertising; and (4) technical knowledge.

The court viewed the application of inevitable disclosure as essentially binding the employee to an implied-in-fact restrictive covenant, noting that the implied covenant ran counter to New York's strong public policy against such agreements. Describing the inevitable disclosure doctrine, the court observed that its application was "fraught with hazards."[15] Among those hazards, the court counted an imperceptible shift in bargaining power between employer and employee when the relationship commenced, the chilling effect that risk of litigation might have on employee mobility, and the difficulty courts would have applying the nebulous standard of inevitability. Accordingly, the court rejected the doctrine of inevitable disclosure.[16]

V.

Conclusion

In those jurisdictions where it has been adopted, the doctrine of inevitable disclosure provides employers with a powerful weapon to wield against employees who defect to their competitors. Essentially, the court can stop the employee from taking a new position with a competitor company. This leverage affords tremendous protection for the trade secrets of the employer – and severely limits the employment mobility of any employee privy to those secrets. On the other hand, in those jurisdictions where the doctrine of inevitable disclosure has been rejected, employers may still protect their trade secrets through the use of carefully drafted covenants not to compete.

ENDNOTES

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† Submitted by the authors on behalf of the FDCC Employment Litigation and Civil Rights Section.

[1] *See* PepsiCo Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995).

[2] *See* Whyte v. Schlage Lock Co., 125 Cal. Rptr. 2d 272 (Ct. App. 2002).

[3] *See* EarthWeb, Inc. v. Schlack, 71 F. Supp. 299, 310 (S.D.N.Y. 1999).

[4] 54 F.3d 1262 (7th Cir. 1995).

[5] *Redmond*, 54 F.3d at 1270.

[6] *See* RKI, Inc. v. Grimes, 177 F. Supp.2d 859 (N.D. Ill. 2001) (finding that the defendant in the same position at a different company would inevitably disclose trade secrets); H&R Block Eastern Tax Servs., Inc. v. Enchura, 122 F. Supp. 2d 1067 (W.D. Mo. 2000) (recognizing the doctrine of inevitable disclosure but finding on the facts that it did not apply); Lexis-Nexis v. Beer, 41 F. Supp. 2d 950 (D. Minn. 1999) (recognizing doctrine of inevitable disclosure in dicta, but finding no trade secrets on the facts); Novell Inc. v. Timpanogos Research Group Inc., 46 U.S.P.Q.2d (BNA) 1197, 1215 (D. Utah 1998) (adopting inevitable disclosure doctrine); Merck & Co. Inc. v. Lyon, 941 F. Supp. 1443 (M.D.N.C. 1996) (manufacturer was entitled to preliminary injunction under theory of inevitable disclosure); Branson Ultrasonics v. Stratman, 921 F. Supp. 909 (D. Conn. 1996) (invoking inevitable disclosure to enforce covenant not to compete); Bendinger v. Marshalltown Trowell Co., 994 S.W.2d 468 (Ark. 1999) (plaintiff may prove a claim of trade-secrets misappropriation by demonstrating that a defendant's new employment inevitably will lead him to rely on those trade secrets); Nat'l Starch & Chem. Corp. v. Parker Chemical Corp., 530 A.2d 31 (N.J. Super. Ct. App. Div. 1987) (finding sufficient likelihood of inevitable disclosure).

[7] *See* Proctor & Gamble v. Stoneham, 747 N.E.2d 768 (Ohio Ct. App. 2000).

[8] *Branson Ultrasonics*, 921 F. Supp. 909.

[9] *Id.* at 913-14.

[10] *See* Whyte v. Schlage Lock Co., 125 Cal. Rptr. 2d 272 (Ct. App. 2002).

[11] *Id.* at 277.

[12] *Id.* at 292.

[13] *Id.* at 293.

[14] 71 F. Supp. 2d 299 (S.D. N.Y. 1999).

[15] *Id.* at 310.

[16] For other jurisdictions that have rejected the doctrine of inevitable disclosure, see the following: Globespan, Inc. v. O'Neill, 151 F. Supp. 2d 1229 (C.D. Cal. 2001) (holding that allegation claiming use of trade secrets in new employment was inevitable insufficient to state claim for trade secrets misappropriation); Del Monte Fresh Produce Co. v. Dole Food Co., Inc., 148 F. Supp. 2d 1326 (S.D. Fla. 2001) (holding that trade secret usage will not be enjoined under Florida law on grounds that its use by former employee is inevitable); Gov't Tech. Servs. Inc. v. IntelliSys Tech. Corp., 1999 WL 1499548 (Va. Cir. Ct. 1999) (holding Virginia does not recognize the inevitable disclosure doctrine).

(Authors' bios)

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