The Inevitable Disclosure of Trade Secrets: The Rebirth of a Controversial Doctrine and Where the Courts Stand

Contributed by: Jeffrey S. Klein and Gregory Silbert, Weil, Gotshal & Manges LLP

When an employee who knows valuable trade secrets leaves to work for a competitor, the former employer faces considerable legal hurdles in seeking to enjoin the new employment. The public policy of many states favors employee mobility and disfavors efforts to stop a person from earning a livelihood. Even so, the use or disclosure (as opposed to a mere taking) of trade secrets, if it can be shown, generally is a sufficient ground to restrain a former employee from working for a competitor, at least temporarily. The difficulty is how to prove such disclosure—particularly because, upon learning of the employee's plan, the employer probably will want immediate relief in the form of a TRO or preliminary injunction, leaving no time for prolonged discovery before making the judicial application.

The inevitable-disclosure doctrine is one means of demonstrating a revelation of trade secrets, and this doctrine has recently found some renewed judicial support. Where applicable, the doctrine enables a court to find that a former employee would disclose proprietary information in her position with a new employer, even where there is no evidence of actual disclosure. Thus, the inevitable-disclosure doctrine can fill an evidentiary void, allowing a company to make a critical showing when it could not do so if required to come forward with particularized evidence of misconduct. Because it rests on a prediction about a future harm, inevitable disclosure also is in tension with the general principle that injunctive relief will not be awarded to prevent a conjectural injury.

Not surprisingly, companies seeking to protect trade secrets frequently assert inevitable disclosure. Courts have had mixed reactions. A few have rejected the doctrine outright. Others have accepted it subject to restrictions, such as a requirement that the plaintiff company show that the employee is untrustworthy before the doctrine may be invoked. But in other cases, courts have found inevitable disclosure and enjoined employment, even while emphasizing that there was no evidence of bad faith on the part of the employee.

There are strong policy considerations on both sides of the debate over inevitable disclosure. Application of the doctrine may be necessary to maintain the confidentiality of trade secrets that companies have a right to protect. At the same time, the doctrine can restrain valuable economic output and halt a would-be employee's income, without evidence of misconduct or even bad intent.

The Inevitable Disclosure Doctrine

The principle underlying the inevitable disclosure doctrine is that, in some circumstances, the probability that an employee would reveal trade secrets is sufficiently high that a court may enjoin the employment to prevent the disclosure from occurring. Inevitable disclosure is not a cause of action; it is a means of proving an element of a cause of action, such as a misappropriation of trade secrets under the common law or the Uniform Trade Secrets Act, or of satisfying a requirement for injunctive relief, such as a showing of irreparable harm in an action to enforce a non-competition agreement.

The notion that a court could enjoin employment when a disclosure of trade secrets appears inevitable is not a recent one. As early as 1902, the Seventh Circuit, when restraining an employee from working for a competitor, observed that "[h]e could not well do otherwise" but use his former employer's confidential information.[1]

But the modern life of the inevitable-disclosure doctrine began with the Seventh Circuit's decision in *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). The defendant in that case had been a high-level manager at PepsiCo, and left to join a rival drink company. He had signed a confidentiality agreement with PepsiCo but had not entered any covenant not to compete. The Seventh Circuit nonetheless affirmed a preliminary injunction restraining the new employment, explaining that "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." *Id.* at 1269. *PepsiCo* illustrates an aspect of the inevitable-disclosure doctrine that has since become one of its more controversial characteristics: it operates much like a non-competition agreement, and yet may apply even when the parties never entered into such an agreement.

Another notable feature of *PepsiCo* is that the trade secrets involved in the case were not of a technical nature, as was generally true in earlier cases considering inevitable disclosure. Rather, the employee in *PepsiCo* had been privy to confidential business strategies, such as marketing plans and pricing policies. The rationale of the decision was not that he would disclose these strategies *per se*, as an employee might disclose a technical process or formula in a more typical trade secrets case, but rather that he would be able to anticipate PepsiCo's behavior—like a player who has "has left, playbook in hand, to join the opposing team before the big game." *Id.* at 1270.

A deluge of inevitable-disclosure cases followed *PepsiCo*, but the factors to be considered when weighing a claim of inevitable disclosure remain unsettled. Courts have looked to such factors as (1) the level of competition between the former and new employers; (2) the degree of similarity between the employee's old and new positions; (3) the value of the relevant trade secrets to the new and former employers; (4) the nature and characteristics of the industry; (5) efforts by the new employer to prevent the disclosure of trade secrets; and (6) indications of bad faith or untrustworthiness on the part of the employee or new employer.

Limitations on the Doctrine

Although the inevitable-disclosure doctrine has been adopted in a number of jurisdictions, some courts have flatly rejected it. Resistance to the doctrine generally derives from public policies favoring employee mobility and from a related sense that an employee—if not bound by a non-competition agreement—should remain free to earn a livelihood unless shown to have engaged in actual misconduct. Thus, courts in California, where non-competition agreements are generally unenforceable, *see* Cal. Bus. & Prof. Code § 16600, have given a cold reception to the inevitable-disclosure doctrine.[2] Other jurisdictions in which courts have rejected inevitable disclosure include Maryland[3], Florida[4], Virginia[5], and Louisiana.[6]

While not rejecting the inevitable-disclosure doctrine outright, other courts have sought to narrow its application. Some have been reluctant to apply the doctrine in the absence of a non-competition agreement, *see, e.g.*, *Rencor Controls Inc. v. Stinson*, 230 F. Supp. 2d 99, 103 n.4 (D. Me. 2002), although there was no such agreement in the leading *PepsiCo* case. Still others have required a showing of bad faith or duplicity on the part of the employee—a requirement that finds some support from *PepsiCo*, which relied in part on a finding that the employee "could not be trusted to act with . . . good faith."[7] One court has suggested a middle path, in which bad faith would be required for "a broad injunction effectively precluding competitive employment," but not for a narrower order "protecting specifically defined trade secrets . . . of significant value."[8]

Whether bad faith ought to be considered in inevitable-disclosure cases goes to a significant, but largely undiscussed, question about the doctrine: is it meant to intercept deceitful (but predictable) misconduct, or is it meant to apply only where disclosure would be truly inevitable, in the sense that even the most faithful former employee could not avoid it? Cases requiring bad faith before finding inevitable disclosure suggest the former approach, but not all courts concur.[9] In a case not involving inevitable disclosure, the Second Circuit recently indicated that nefarious intent to use trade secrets does not, by itself, create a presumption of irreparable harm in a misappropriation case; rather, a rebuttable presumption of harm exists only if there is evidence of a danger that a misappropriator will disseminate or impair the value of trade secrets.[10]

Another factor that may limit the application of the doctrine, also relating to the employee's trustworthiness, is whether there is evidence of actual misappropriation. At least one court has relied on the inevitable-disclosure doctrine to bolster a finding of actual misappropriation and thus strengthen an existing showing of irreparable harm or likelihood of success on the merits. In *Doubleclick, Inc. v. Henderson*, No. 116914/1997, (N.Y. Sup. 1997), a New York case that is both much-cited and much-criticized, a trial court found that a former employee had actually misappropriated trade secrets by emailing a confidential business plan to someone aligned with a competitor—a finding that by itself would ordinarily warrant enjoining new employment. *Id.* at *5. The court went on, however, to find that "defendants will inevitably use DoubleClick's trade secrets," further demonstrating a likelihood of success on the merits. *Id.* at *6. While most courts have stopped short of requiring actual misappropriation before finding inevitable disclosure, some have commented that "'[a]bsent evidence of actual misappropriation . . . the [inevitable-disclosure] doctrine should be applied in only the rarest of cases.'"[11]

Some courts also have pointed to confidentiality agreements entered into by the former employee and employer—which are routinely signed in many industries—as a factor weighing against inevitable disclosure.[12]

In another recent case, the court declined to apply the inevitable disclosure doctrine in large part because doing so would have imposed an undue hardship upon the defendant. In *Intern. Bus. Machines Corp. v. Johnson*, 629 F. Supp. 2d 321 (S.D.N.Y. June 26, 2009), the court considered an assertion of inevitable disclosure when "balancing the hardship as between the parties" to determine whether a preliminary injunction was warranted. The court observed that the "inevitable disclosure of trade secret information is sufficient to establish a real risk of irreparable harm," but nonetheless denied the plaintiff preliminary relief. To some extent, the court's decision rested on the ground that the defendant employee possessed only "business strategy information," which IBM had described in a manner that was "long on generalities and rather short on details." *Id.* The court accepted that this information was important enough to "harm the Company" if disclosed, but concluded that it was not as significant as "quintessential trade secret information," such as "technical know-how." *Id.* Ultimately, the court determined that the harm to IBM from the disclosure of these business strategies was insufficient to outweigh "[t]he damage to Mr. Johnson's career and the risk that he will be sentenced to an early retirement," should he be restrained from working. *Id.* IBM has appealed this decision.

Broader Uses of the Doctrine

Not all courts have applied the inevitable-disclosure doctrine so sparingly. Some, like the Seventh Circuit in *PepsiCo*, have shown no concern about the absence of a non-competition agreement, and have not drawn the inference that the presence of confidentiality agreement suggests that disclosure would not be inevitable.[13] And some courts, instead of requiring bad faith or untrustworthiness, have found inevitable disclosure despite emphasizing that they "do[] not doubt the [employee's] good intentions."[14]

Another high-profile case in the Southern District of New York illustrates a broad view of the inevitable-disclosure doctrine. In *International Bus. Machines Corp. v. Papermaster*, No. 08-cv-09078 (S.D.N.Y. Nov. 21 2008), IBM sought a preliminary injunction preventing a former executive from heading the iPod/iPhone division at Apple. The employee had signed a non-competition agreement, and IBM asserted inevitable disclosure to establish the irreparable harm necessary for injunctive relief. There was no evidence that the employee had actually misappropriated any confidential information, or that he had "intentionally acted dishonorably." *Id.* The court nonetheless preliminarily enjoined him from working for Apple, finding a high likelihood of an "inadvertent disclosure" of trade secrets. (*Disclosure: the authors were retained to represent Mr. Papermaster after the PI was issued*).

Papermaster's application of the inevitable-disclosure doctrine was expansive in another respect: it found inevitable disclosure even though the old and new employers are not competitors, at least as that term is ordinarily understood. Apple, the new employer, sells electronic devices directly to consumers. iPods and iPhones—the division to be led by Mr. Papermaster—are among its best-selling products. The former employer, IBM, is not a consumer electronics company, having sold its personal computer business to Lenovo in 2005. Rather, IBM is an "enterprise" company, selling computer servers and microprocessors to other businesses or organizations. Thus, Apple and IBM do not sell similar products and do not have a similar customer base. Accordingly, they are not, in the ordinary sense, competitors—a factor that typically must be present for a finding of inevitable disclosure.

The court in *Papermaster* found that sufficient competition existed between the two companies because of the possibility that IBM could supply components for Apple products. IBM makes microprocessors, the "brains" of all electronic devices, though the ones manufactured by IBM at the time would not have been suitable for iPods and iPhones. The Apple division to be run by Mr. Papermaster does not develop or engineer microprocessors; it procures them from outside sources, but not from IBM. The court found that "Mr. Papermaster inevitably will draw upon his [IBM] experience and expertise . . . to make sure that the iPod and iPhone are fitted with the best available microprocessor technology and at a lower cost." *Id.* This, the court determined, will harm IBM's potential "to compete for the sale of products that could be used in the iPods and iPhones of the future." *Id.* By thus finding inevitable disclosure in the absence of competition in the ordinary sense, *Papermaster* appears to have broken new ground.

Implications

Important public policies favoring employee mobility have made some courts uneasy about applying the inevitable-disclosure doctrine. Others, unwilling to see trade secrets revealed or business ethics violated, have employed it to impose a remedy that might otherwise be unavailable. The unpredictability with which courts have applied the still evolving doctrine makes it a force to be reckoned with in almost any case involving the protection of trade secrets.

Jeffrey S. Klein is chair of the national Employment Litigation practice of Weil, Gotshal & Manges LLP, in New York, and represents employers in all aspects of labor and employment relations law, with particular emphasis on employment discrimination, healthcare benefits and trade secrets litigation. Gregory Silbert is an attorney in the New York office of Weil Gotshal, specializing in Appellate Litigation. The authors can be reached at jeffrey.klein@weil.com and gregory.silbert@weil.com.

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1 *Harrison v. Glucose Sugar Refining Co.*, 116 F. 304, 311 (7th Cir. 1902); *see also Vulcan Detinning Co. v. Assmann*, 185 A.D. 399, 419-20 (N.Y. App. Div. 1918); *Eastman Kodak Co. v. Powers Film Products*, 189 A. D. 556, 561 (N.Y. App. Div. 1919); *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99, 104-05 (Ohio Ct. App. 1963); *E. I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*, 200 A.2d 428, 435-37 (Del. Ct. Chancery 1964).

2 *See, e.g.*, *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1447 (4th Dist. 2003) ("We hold this doctrine is contrary to California law and policy.").

3 *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 471 (Md. Ct. App. 2004).

[4] *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326, 1337 (S.D. Fla. 2001).

[5] *Government Technology Services, Inc. v. IntelliSys Technology Corp.*, 51 Va. Cir. 55, (Cir. Ct. 1999).

[6] *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 265 (E.D. La. 1967).

[7] 54 F.3d at 1270; *see also Kelly Servs. Inc. v. Marzullo*, 591 F. Supp. 2d 924 (E.D. Mich. Nov. 20, 2008) (requiring bad faith); *Dearborn v. Everett J. Prescott, Inc.*, 486 F. Supp. 2d 802, 820 (S.D. Ind. 2007) (same); *H & R Block Eastern Tax Services, Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1075 (W.D. Mo. 2000) (same).

[8] *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 & n.5 (M.D.N.C. 1996).

[9] *See, e.g.*, *Barilla America, Inc. v. Wright*, No. 4-02-CV-90267 (S.D. Iowa July 5, 2002) (finding "nefarious intent" in that case but observing that "[t]he inevitable disclosure doctrine appears to be aimed at preventing disclosures despite the employee's best intentions").

[10] *Faiveley Transport Malmo AB v. Wabtec Corp.*, 559 F.3d 110, 118-19 (2d Cir. 2009); *see also Amer. Airlines, Inc. v. Imhof*, 620 F. Supp. 2d 574, 579 (S.D.N.Y. 2009).

[11] *Metito (Overseas) Ltd. v. General Elec. Co.*, No. 05-cv-09478 (S.D.N.Y. Feb. 18 2009); *see also Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 737 (N.Y. App. Div. 2003) (stating that inevitable disclosure is "disfavored" without evidence of actual misappropriation); *but cf. M-I, L.L.C. v. Stelly*, 2009 WL 2355498, at *7 (S.D. Tex. July 30, 2009) ("Plaintiff has . . . failed to show that [defendants] took any confidential information with them or that they are using such information at Wellbore; the Court will therefore not apply the inevitable disclosure doctrine.").

[12] *See Metito*, No. 05-cv-09478, at *12 ("'confidentiality agreement . . . clearly anticipated that [the employee] may change his employment during its duration after acquiring plaintiff's confidential information'") (quoting *Marietta*, 301 A.D.2d at 738).

[13] *See also Doubleclick*, No. 116914/1997; *Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.*, 732 F. Supp. 370, 378 (S.D.N.Y. 1989).

[14] *Integrated Cash Management*, 732 F. Supp. at 378.