The Inevitable Disclosure Doctrine
A Necessary And Precise Tool For Trade Secret Law

By *Cameron G. Shilling* of McLane, Graf, Raulerson & Middleton, P.A.

We live in an age of technological revolution. The personal computer has fundamentally altered our business and personal lives, and the Internet has reinvented the way we communicate, transact commerce and obtain information. Unprecedented employee mobility and fierce competition in the marketplace have become the norm, resulting in monumental advancements in technology in relatively short periods of time.

Intellectual property law plays an integral role in this revolution. Patent, copyright, trademark, and trade secret law are critical tools for businesses to develop and exploit their innovations. As Judge Posner of the U.S. Court of Appeals for the Seventh Circuit wrote in 1991, the "future of the nation depends in no small part on the efficiency of industry, and the efficiency of industry depends in no small part on the protection of intellectual property." Continuing our current prosperity will depend in part on how intellectual property law is applied in the American marketplace.

Fierce competition for talented labor has caused employers to invoke the protections of intellectual property law, particularly trade secret law, to prevent former employees and competitors from capitalizing on their innovations. This article addresses two cutting edge applications of trade secret law in this context: first, whether an employer can stop a former employee from using trade secrets retained in memory, i.e. "misappropriation by memory"; and second, whether an employer can use trade secret law to enjoin a former employee from working in a job that would inevitably result in the use of trade secrets, i.e. "inevitable disclosure."

These doctrines are closely related, and oftentimes arise in the same case. Each protects against the use of a memorized trade secret, but they differ in the type of injunctive relief available. Misappropriation by memory governs where a former employee has already used a memorized trade secret. In that instance, an injunction may be obtained against any further use. Inevitable disclosure applies if a former employee has taken or intends to take a job where use of a trade secret is inevitable. This doctrine typically is not used where a trade secret is taken in tangible form, since that warrants an injunction in its own right, but rather only where use of a memorized trade secret is inevitable. In that situation, an injunction may be obtained to prohibit the former employee from working in the job.

The two doctrines rise important, but severely conflicting, policy interests. An employer has an interest in protecting innovations developed through substantial investments of time and capital. That interest is directly at odds with the interests of employees in marketing their most valuable knowledge, skills and experiences. Society also has an interest in protecting trade secrets to entice businesses to pursue further innovations, so that the consuming public can benefit from technological advancements. That interest conflicts with a competitor's need to obtain talented labor, and society's desire to nurture such competition so as to encourage further innovation and reduce the costs of goods and services in the marketplace.

Courts and practitioners struggle with these two doctrines because of the conflicting nature of the policy interests and the importance of them to the vitality of American industry. The result has been judicial decisions that are intensely fact specific. This article analyzes the standards that govern these decisions and the factors that should be considered when applying the doctrines.

A. The Policy Interests—Balancing the Interests of Employees, Employers, Competitors and Society Is Critical

Trade secret law developed from the common law of unfair competition. The overriding policy of trade secret law, therefore, is to maintain and promote standards of commercial ethics and fair dealing. "The necessity of good faith and honest, fair dealing is the very life and spirit of the commercial world," wrote

Justice Burger in the U.S. Supreme Court's seminal trade secrets case, Kewanee Oil Company v. Bicron Corporation.
The other central goal of trade secret law is to provide an incentive for businesses to innovate. Employers invest substantial time and capital to develop competitively advantageous innovations. Often such innovations are not patentable. If not protected by trade secret law, competitors could harvest the fruits of others without bearing the risks or costs of sowing the seeds themselves. Such competition runs afoul of principles of commercial ethics and fair dealing. The interests of employers in protecting their innovations, however, run directly contrary the competitive principles of a capitalistic society. Trade secret law denies to the public the full benefits of innovations by limiting their distribution and exploitation. As the Restatement (Third) of Unfair Competition recognizes, "[a]chieving the proper balance between protection and access is often a difficult and complicated undertaking."

There is some difference of opinion as to the foundation of the employer's interest in trade secret law. For example, in the first American case to address trade secrets, the Supreme Judicial Court of Massachusetts found that secrets are property, and that an employer has the right to protect trade secrets in the same manner it would protect any other property right. But Justice Holmes, writing for the U.S. Supreme Court in 1917, took the opposite position. He believed that "the starting point for [trade secret law] is not property or due process of law, but that the [employee] stood in confidential relations with the [employer]." The weight of modern authority is that trade secrets are a special kind of property that exists only if the employer reasonably preserves its secrecy. The employment relationship plays a key role in this property right because employers frequently must disclose secrets to employees to exploit them. This disclosure is made without the information losing its secrecy specifically because the employee owes a duty of loyalty to the employer.

The confidential relationship between an employer and employee tips the scales heavily in favor of protecting the employer while an employee is still employed. Once employment ends, however, the balance changes. At that point, an employee has the right to compete with the former employer, absent a non-competition agreement, as long as the employee does not use the employer's trade secrets.

This protection given to trade secrets is a shield, sanctioned by the courts, for the preservation of trust in confidential relationships; it is not a sword to be used by employers to retain employees by the threat of rendering them substantially unemployable in the field of their experience should they decide to resign.

Society places a high value on the freedom to market one's knowledge and skills to earn a living in one's area of expertise. Employee mobility also ensures the livelihood of competitors and fosters competition by the dissemination of valuable experiences. Inherent in this principle is the ability of employees to use the knowledge and skills acquired while working for the former employer in a new job. In the words of one court, a "person who enters employment as an apprentice and leaves it as a master cannot be enjoined from using his enhanced skills and knowledge in future employment."

Trade secret law must carefully balance these competing policy interests. When it comes to the doctrines of misappropriation by memory and inevitable disclosure, these interests can oftentimes seem irreconcilable.

B. Misappropriation by Memory—Memorized Trade Secrets Are Protectable. The Difficulty Is In Differentiating Between Protectable Trade Secrets and Non-Protectable Knowledge and Skills of the Former Employee

Under the common law of trade secrets, some courts distinguished secrets in written or other tangible form from those retained in memory, and refused to protect memorized secrets. The often-cited reason was that "equity has no power to compel a man who changes employers to wipe clean the slate of his memory." These courts prioritized the concerns for employee mobility and unfettered competition, and placed the burden on employers to protect themselves with non-competition agreements. In the austere words of Judge Learned Hand, "time creates no prescriptive right in other men's labor. If an employer expects so much, he must secure it by contract."

Over the past fifty years, the employer's interest in protecting innovations through trade secret law has gained favor, rather than requiring the employer to enter into an agreement that restrains trade and is disfavored. As the Illinois Supreme Court explained, the "morals of the marketplace" simply should not differentiate a secret that is misappropriated in tangible form, from a secret that is "memorized by someone with a photographic memory, or ... committed to memory by constant exposure" to it. Thus, the distinction between tangible and memorized secrets is now nearly universally rejected. The Uniform Trade Secrets Act ("UTSA"), which has been adopted in 44 states including New Hampshire, does not distinguish between tangible and memorized trade secrets, and the Restatement disavows the distinction.

The difficult issue is not whether a memorized trade secret is protectable. The difficulty is in differentiating between a protectable trade secret and non-protectable knowledge and skills of the former employee that are retained in the person's memory. The knowledge and skills a former employee develops while employed are often so intertwined with the employer's trade secret that it is difficult to differentiate between the secret and the knowledge and skills related to it. These situations "necessitate the drawing of a fine line of distinction in determining which rule should properly apply."

Courts address this problem by distinguishing memorized knowledge and skills that are "general" in the industry, which are not protectable, from those that are "particular" to the employer, which are protectable. But this terminology oversimplifies the problem. While general knowledge and skills are never secrets, neither are particular ones in many instances. Enjoining former employees from using particular knowledge and skills in all instances tips the balance too much in favor of employers, at the expense of an employee's right to earn a living in his or her field of expertise and society's interest in nurturing competition. Thus, whether "information is properly regarded as a trade secret of the former employer or as part of the general skill, knowledge, training, and experience of the former employee depends on the facts and circumstances of the particular case."

The starting point is the definition of a "trade secret." A trade secret is information that "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." Based on this definition, the relevant question is whether the knowledge and skills retained in the employee's memory are known to or readily ascertainable by competitors in the industry who can exploit the knowledge and skills for economic value.

If the knowledge and skills are similar to those possessed by others in the industry, then the former employee cannot be prevented from utilizing them for a new employer. In that situation, the knowledge and skills are "generally known" in the industry, and the employee's interest in earning a living in that industry far outweighs competing concerns. The more difficult situation arises where a former employee's knowledge and skills are superior to his or her peers or unique in the field. "Trade secret rights are more likely to be recognized in specialized information unique to the employer's business than in information possessed by persons employed in the industry." Though such advanced knowledge and skills are not generally known in the industry, they are protectable as trade secrets only if they also are not "readily ascertainable."

From a policy perspective, the later situation raises the most severely conflicting interests. Employees have a is directly at odds with the need to protect such knowledge and skills so that employers will continue to develop these attributes in their employees. Finally, trade secret law should not be used to impose a restrictive covenant where the former employee never agreed to, and was not paid for, such a dramatic restriction. If an employer has failed to obtain a non-competition agreement, courts should "not raise to trade secret status the fruits of ordinary experience in business, thus compelling former employees to reinvent the wheel as the price for entering the competitive market."

Given these conflicting interests, some courts are very reluctant to enjoin an employee from using advanced knowledge and skills retained in the person's memory. As the Pennsylvania Supreme Court explained, the fact that a former employee's knowledge and skills are "in a new and unique field might tend to persuade that [the knowledge and skills are] secrets, but they [also may be] matters which any industrious person would learn in a developing field."

Other courts are less reluctant, and will consider enjoining the use of advanced knowledge and skills under certain circumstances. A variety of factors can influence the determination. If the advanced knowledge and skills are readily obtainable from studying manuals, texts or literature available in the industry, or by attending formal or informal education or training, they are not protectable as trade secrets. Likewise, the knowledge and skills are less likely to be protected if they concern technology available in the industry, or the application of principles known or discernable in the industry, unless competitors have tried and been unsuccessful in developing such knowledge and skills using these resources. Courts also have hesitated to enjoin the use of knowledge and skills that the former employee started to develop before working for the employer but enhanced during employment, or developed largely through his or her own initiative during employment. Finally, courts are very reluctant to enjoin an employee from using advanced knowledge and skills if doing so would restrict that person from obtaining comparable employment in the industry. If "information is so closely integrated with the employee's overall employment experience that protection would deprive the employee of the ability to obtain employment commensurate with the employee's general qualifications, it will not ordinarily be protected as a trade secret of the former employer."

All of these considerations are designed to safeguard an employee's right to exploit his or her expertise and society's interest in nurturing competition, while protecting only the legitimate scope of an employer's interests. In light of the importance of these concerns to the vitality of the American marketplace, and the significant impact of injunctions against the use of advanced knowledge and skills on these interests, such injunctions should be rare.

This analysis applies equally to all types of trade secrets, including customer and business information. Customer and business information can be a company's most valuable asset, and may represent a considerable investment of resources. Some courts, particularly in New York, distinguish customer and business information from technical trade secrets, and refuse to enjoin the "casual memory" of customer and business information, though they will enjoin the use of the information if deliberately memorized. The distinction between casual and deliberate memorization arises out of language in a comment to the Restatement (Second) of Agency. That language is inconsistent with the Restatement (Third) of Unfair Competition, and contrary to the weight of authority in UTSA states, including cases in New Hampshire. The determination of whether memorized customer and business information is protectable should turn on whether the information is a trade secret, not whether it was memorized casually or deliberately. Like all other kinds of trade secrets, determining whether an employee is entitled to use memorized customer or business information of the former employer requires a fact specific inquiry as to whether such information is generally known or readily ascertainable in the industry.

C. Inevitable Disclosure—The Former Employer Must Show that the Employee Will Inevitably Use a Specific Trade Secret in the Course of an Identified Job Duty

The inevitable disclosure doctrine follows naturally from misappropriation by memory, and the two doctrines often apply in the same case. For example, employers oftentimes seek an injunction to prohibit the former employee from both using advanced knowledge and skills, and from working in the job where use of the knowledge and skills would be inevitable.

Inevitable disclosure is not a new doctrine. Courts applying the common law of trade secrets could enjoin an employee from working for a new employer where the former employer demonstrated a probability that its trade secrets would be used or disclosed in the course of the new job. The basis for this relief was protection against threatened misappropriation. The UTSA codified the common law by providing that both "[a]ctual or threatened misappropriation may be enjoined." Most courts interpreting the UTSA therefore recognize that the inevitable disclosure doctrine is a specific example of threatened misappropriation.

Though not new, the inevitable disclosure doctrine was reinvigorated in the mid-1990's, and became the cutting edge of trade secret law, when adopted by the U.S. Court of Appeals for the Seventh Circuit in PepsiCo, Inc. v. Redmond. That case involved a rivalry between PepsiCo and Quaker Oats Company in the sports drinks market. Redmond had worked for PepsiCo for 10 years, and was the general manager of one of its business units. In that position, he received and was responsible for implementing PepsiCo's

strategic business plans for the manufacturing, distributing, pricing, marketing, and advertising of PepsiCo's sports drink. When Redmond left PepsiCo for Quaker, PepsiCo sued alleging that he would inevitably disclose PepsiCo's strategic plans in the course of his job at Quaker.
The Seventh Circuit acknowledged that the "question of threatened or inevitable misappropriation ... lies at the heart of a basic tension in trade secret law," resulting from the conflicting interests of employers, employees, competitors and society. This tension is "particularly exacerbated when a plaintiff sues to prevent not the actual misappropriation of trade secrets but the mere threat it will occur." Despite these concerns, the Seventh Circuit adopted the rule 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."

To determine whether such a disclosure would occur, the Seventh Circuit conducted a detailed analysis of whether Redmond's use of PepsiCo's business plans would be inevitable due to his new job duties. PepsiCo argued that Redmond would inevitably use his knowledge of PepsiCo's strategic plans in the course of his responsibilities for the prices, costs, margins, distribution, packaging, and marketing of Quaker's sport drinks. Quaker responded that Redmond's responsibilities would be to oversee Quaker's well-established distribution system, and implement its own business plans for its sports drinks, thus Redmond would not need to use PepsiCo's business plans. The Seventh Circuit rejected Quaker's position because the court felt that Redmond would inevitably use his knowledge of PepsiCo's strategic business plans to anticipatorily position Quaker's sport drinks. "In other words, PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game." In addition to these factors, the court also considered signs that Redmond and Quaker subjectively intended to use PepsiCo's secrets, like Redmond's "lack of forthrightness" and Quaker's "unnatural interest in hiring [PepsiCo] employees." All these facts together justified the conclusion that Redmond would inevitably use PepsiCo's business plans, and warranted an injunction against Redmond working for Quaker.

Since the Seventh Circuit adopted the inevitable disclosure doctrine under Illinois law, courts in many other jurisdictions have considered whether to adopt and apply it. Because of the significant policy ramifications, the doctrine has received heavy criticism by commentators, including the author of a leading treatise, and courts in California, Virginia, and Florida have rejected it completely. Despite the conflicting policy concerns, the doctrine has a place in trade secret law, both from a policy perspective and as a matter of statutory construction. As reflected in recent judicial decisions, the policy concerns counsel for a narrow application of the doctrine. The doctrine should be limited to the narrow factual situation where it is inevitable that a former employee will use a specific trade secret in the course of performing an identified job responsibility inherent in the person's new position.

The policy ramifications of the inevitable disclosure doctrine are serious because of the significant impact that the doctrine has on the interests of employees, competitors and society. The employee is foreclosed from performing the exact job that best utilizes his or her specific experiences and talents, and competition is squelched by preventing those specific experiences and talents from being utilized by the employer that can exploit them for the greatest public benefits. The most important policy ramification of the doctrine is that it creates "an ex post facto covenant not to compete." The imposition of such a restriction should be questioned, if for no other reason, because of long-standing disfavor for such covenants. The U.S. District Court for the Southern District of New York recently addressed this concern in EarthWeb, Inc. v. Schlack. That court recognized that such a restriction results in a "shift of bargaining power," because the employer is creating a non-competition agreement from whole cloth, or wielding a confidentiality agreement as a restrictive covenant. "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." Also, a court imposing such a restriction has no frame of reference from which to determine the reasonable scope of such a covenant. In light of these concerns, "the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory," and "should be applied in only the rarest of cases."

While the doctrine has been applied sparingly, courts have enumerated several factors that bear on its application. These factors include: (i) whether the former and new employers are direct competitors; (ii) whether the employee's new job is identical the old one; (iii) whether the trade secret is clearly

established; and (iv) whether the trade secret is highly valuable to both employers. Though these factors are useful indicators to determine whether the disclosure of a trade secret is inevitable and to limit the application of the doctrine, strict adherence to the factors is problematic. For example, disclosure of a trade secret could be inevitable even where the new employer is not a direct competitor, but nonetheless has a novel use for the former employer's trade secret. Disclosure may be similarly inevitable where the employee's new job is not identical or even similar to the old one, but nonetheless poses a danger that the employee will use the trade secret in a different application. Finally, though a valuable trade secret may be more tempting to misappropriate, there is no good reason to deny protection to a trade secret that has a lesser value, or a lesser value to the former employer than to the new employer. In these instances, strict adherence to the enumerated factors ignores the former employer's legitimate interest in protecting its trade secrets, solely to impose limitations on the doctrine. Though the doctrine should be narrow, strict adherence to factors that are not always determinative of inevitable disclosure is an inappropriate means to achieve that objective.

Some courts also have discussed requiring evidence of the former employee's and new employer's subjective intent to misappropriate the trade secret. Though such evidence may be indicative of an inevitable disclosure, a disclosure could be inevitable in the absence of such a subjective intent. This evidence also can be difficult to obtain by the former employer, even where such a subjective intent exists. Requiring this evidence would again undervalue the employer's protectable interests, and thus should not be mandatory to prove inevitable disclosure.

The most significant consideration when applying the inevitable disclosure doctrine should be whether the former employee would use the specific trade secret at issue in the course of performing an identified job responsibility inherent in the person's new position. As one court recently explained, "employers must demonstrate inevitability exists with facts indicating that the nature of the secrets at issue and the nature of the employee's past and future work justify an inference that the employee cannot help but consider trade secret information." This requires a former employer to identify the trade secrets and new job responsibilities with specificity, and to provide a detailed explanation of why the former employee's use of those trade secrets would be inevitable in the course of performing those job duties. For example, courts have refused to apply the doctrine where employees take identical or very similar jobs with direct competitors, but the competitors have somewhat different manufacturing or business processes so that the employees would not necessarily directly use the trade secrets at issue in the course of their new responsibilities. Courts have also refused to apply the doctrine to protect former employers' trade secrets concerning new lines of products and services where the employees took jobs with direct competitors selling existing competing products and services, but had no responsibility for developing or marketing new lines for the competitors. These decisions narrow the doctrine slightly from the circumstances in PepsiCo, Inc. v. Redmond.

This narrowed application of the doctrine has a place in trade secret law from both a policy perspective and as a matter of statutory interpretation. Both the UTSA and the Restatement expressly permit courts to enjoin threatened misappropriation, which is often important for employers to prevent former employees and competitors from wrongfully using a trade secret before such misappropriation occurs. From a policy perspective, this narrow application shields only an employer's legitimately protectable trade secrets, while precluding the employee from taking only a limited number of jobs or assuming only certain specific job responsibilities. This also avoids the judicial imposition of a restrictive covenant that would prevent the employee from working for a particular employer in any job, or from working in the industry in which the employee has developed expertise.

D. Conclusion

Courts and practitioners should proceed cautiously when asked to decide whether trade secret law protects against the use of a former employee's knowledge and skills or an inevitable disclosure. These doctrines jeopardize the mobility of employees and freedom of competition that are vital to American industry and are fueling the current technological revolution. A former employee's use of advanced knowledge and skills should be enjoined only where the knowledge and skills are neither generally known nor readily ascertainable by competitors in the industry. An injunction against inevitable disclosure should be issued only where it is inevitable that the former employee will use a specific trade secret in the

course of performing an identified job responsibility inherent in the person's new position. These are narrow standards. They strike a careful balance between severely conflicting policy interests, and therefore should result in the imposition of an injunction only in rare circumstances.