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## Threatened Misappropriation of Trade Secrets vs. Inevitable Disclosure Doctrine--When Is the Line Crossed?

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Most states have adopted some form of the Uniform Trade Secret Act (the "UTSA"). The UTSA provides that "actual or threatened misappropriation may be enjoined." (*See* Cal. Civ. Code § 3426.2(a).) However, neither the UTSA nor California's version of the UTSA defines the term "threatened" misappropriation. Unlike other areas of intellectual property law, the protectability of trade secrets is defined by state law. Despite almost nationwide adoption of the UTSA, state law differs greatly concerning which acts may be enjoined as "threatened" misappropriations.

Many states have adopted the inevitable disclosure doctrine which allows a trade secret owner to enjoin a former employee from working for a direct competitor despite the trade secret owner's inability to prove actual or threatened misappropriation of trade secrets. The inevitable disclosure doctrine is based upon a demonstration that "the employee's new job duties will inevitably cause the employee to rely upon knowledge of the former employer's trade secrets." (*See Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1446.)

California courts have rejected the inevitable disclosure doctrine, finding that it is directly contrary to California's public policy prohibiting an employer from entering into a noncompetition agreement with its employees. (Bus. and Prof. Code § 16600.) Courts applying California law have routinely found that the inevitable disclosure doctrine would "create an after-the-fact covenant not to compete restricting employee mobility." (*Ibid.*)

New York is one of the leading jurisdictions that has adopted and is expanding the scope inevitable disclosure doctrine. The United States District Court for the Southern District of New York recently addressed the inevitable disclosure doctrine and seems willing to expand its scope even beyond other jurisdictions that have adopted the doctrine. (*IBM v. Papermaster*, 2008 WL 4974508 (S.D.N.Y.).) Many courts that have adopted the inevitable disclosure doctrine treat it as a subspecies of the statutory "threatened" disclosure. However, the Court in *IBM v. Papermaster* considered the inevitable disclosure doctrine as a third species of proof justifying the issuance of an injunction prohibiting a former employee from joining a competitor. The *IBM* court found that a former employee may be enjoined from joining a competitor "[e]ven where a trade secret has not yet been disclosed, irreparable harm may be found based upon a finding the trade secrets will inevitably disclosed, where . . . the movant competes directly with the prospective employer and the transient employee possesses highly confidential or technical knowledge concerning marketing strategies or the like." (*IBM v. Papermaster* (2008) WL 1974508 at 7, citing *Estee Lauder v. Batra*, 430 F.Supp.2d 158, 174 (S.D.N.Y. 2006).) The *IBM* Court specifically found "because [defendant] has been inculcated with some of IBM's most sensitive and closely-guarded technical and strategic secrets, it is no great leap for the Court to find that plaintiff has met its burden of showing a likelihood of irreparable harm." (*Id.* at 8.) The *IBM* Court cited two additional factors that make the likelihood of irreparable harm more than mere speculation. First, the defendant had acknowledged in his employment agreement that IBM would suffer "irreparable harm" if he violated the noncompetition agreement and that it is inconceivable that the defendant would not draw upon his IBM experiences in making marketing decisions on behalf of his new employer.



The inevitable disclosure doctrine, especially as adopted by New York, is contrary to California law. Nevertheless, the Fifth District Court of Appeal in *Central Valley General Hospital v. Smith* (2008) 162 Cal.App.4th 501, recently examined the distinction between “threatened” misappropriation and inevitable disclosure. The defendant in that case argued that California’s rejection of the inevitable disclosure doctrine effectively preempted a court’s ability to enjoin conduct that “threatened” the disclosure of a trade secret. The Court disagreed, stating, “The principle that threatened misappropriation of trade secrets may be enjoined is the law of California despite the rejection of the inevitable disclosure doctrine by California courts.” (*Central Valley General Hospital, supra*, 162 Cal.App.4th at 525.) The Court then outlined four alternative variations for attempting to prove threatened misappropriation. The first variant is proof that the former employer had protectable trade secrets, that those trade secrets remain in the knowledge of the former employee, and that the former employee has misused or disclosed some of those trade secrets in the past. (*Id.* at 527.) Evidence that a person has misappropriated trade secrets in the past is evidence sufficient to establish that that former employee may do it again.

The second variant of threatened misappropriation is evidence that the former employee “intends to improperly use or disclose some of those trade secrets.” This variant requires the moving party to establish the actual intent of the employee to misuse the trade secrets.

The third variant for proving threatened misappropriation occurs when the former employee and new employer wrongfully refuse to return the trade secrets after a demand for their return has been made. The Court did not formally adopt this variant as an acceptable means of proving threatened misappropriation; rather, it merely assumed that such evidence might be sufficient to support an injunction, but found no such facts in the record to support such a finding.

The last variant discussed by the Court was whether threatened misappropriation could be established if the only factual showing is the defendant was in actual possession of the trade secrets. The short answer is “no.” The Court expressly found that a claim of threatened misappropriation “requires a greater showing than mere possession by the defendant of trade secrets where the defendant acquired the trade secret by proper means.” (*Central Valley General Hospital, supra*, 162 Cal.App.4th at 528.)

California refuses to adopt the inevitable disclosure doctrine as contrary to its public policy. However, the doctrine of “threatened misappropriation” remains a viable alternative to enjoin the misuse or the misappropriation of trade secrets before the harm actually occurs. California courts require proof beyond mere possession of the trade secret. However, past misuse, evidence of actual intent, and possibly refusal to return the trade secrets can support an injunction. The sliding scale of evidence from inevitable disclosure to prohibited threatened misappropriation must be carefully considered in preparing supporting evidence and argument to enjoin a threatened misappropriation.