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Keeping Confidence With Former Employees: California Courts Apply the Inevitable Disclosure Doctrine to California Trade Secret law

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KEEPING CONFIDENCE WITH FORMER EMPLOYEES: CALIFORNIA COURTS APPLY THE INEVITABLE DISCLOSURE DOCTRINE TO CALIFORNIA TRADE SECRET LAW

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I. INTRODUCTION

California's adoption of the Uniform Trade Secret Act ("UTSA"), know as the California Trade Secret Act ("CTSA"), like trade secret laws of other states, sets an ethical standard for behavior between businesses in the commercial arena.[1] It represents the efforts of the legislature and the courts to encourage innovation while simultaneously enforcing a code of moral conduct between businesses, employees, and third parties.[2] The CTSA lays the foundation for this two-fold objective by securing the right to exploit the commercial value in confidential information in the party who developed the information.[3] However, in the context of a trade secret misappropriation action, a majority of courts in California curtail the realization of these goals by requiring the trade secret owner prove its trade secret information has actually been taken in order to prove a misappropriation.[4] As a result, the trade secret owner is confronted with a problem of preventing the misappropriation of its trade secret information when such information is taken in an intangible form such as in the memory of a departing employee.

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1. *See* CAL. CIV. CODE §§ 3426–3426.11 (West 2000); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481–82 (1974).
2. *See Kewanee Oil Co.*, 416 U.S. at 481–82.
3. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. a (1939); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. a (1993).
4. *See* Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999).

In *Electro Optical Industries v. White* the California Court of Appeal for the Second District took steps to correct this problem by expressly adopting the inevitable disclosure doctrine.[5] This trade secret doctrine allows a judge to consider circumstantial evidence of a party's improper conduct without proof of an accompanying actual misappropriation in determining if a business's trade secrets are sufficiently threatened to warrant issuing an injunction against a former employee of the business.[6] In essence, the inevitable disclosure doctrine functions much like a party admission.[7] It allows an employer to present evidence of a former employee's conduct to prove he or she will inevitably use the employer's trade secret information in a subsequent employment.[8]

Although the *Electro Optical* court affirmed a lower court's denial of an injunction,[9] and has since been ordered de-published by the California Supreme Court,[10] the case makes clear that "California courts will grant narrowly tailored injunctions in appropriate circumstances to prevent a former employee from performing certain tasks for a new employer to minimize the threat to a former employer's trade secrets."[11] The rationale behind the *Electro Optical* decision flows from the historical[12] and policy[13] underpinnings of trade secret law and follows the trend of a number of California's superior courts that have employed the doctrine in unpublished opinions for at least the last four years.[14] It also brings California's enforcement of the CTSA in line with the trade

5. Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

6. *See* James Pooley, *The Sky is Not Falling: When It Comes to Trade Secrets and Employee Mobility, a Little "Inevitable Disclosure" is Not Such a Bad Thing*, THE RECORDER, Nov. 1998, at S31 [hereinafter Pooley, *The Sky is Not Falling*].

7. *See* CAL EVID. CODE § 1220 (West 1999).

8. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

9. *See Electro Optical*, 90 Cal. Rptr. 2d at 686.

10. *See* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12 2000).

11. Gary E. Weiss & Sean A. Lincoln, *Accepting the Inevitable: The California Court of Appeal Has Finally Adopted The Trade Secret Doctrine of "Inevitable Disclosure,"* THE RECORDER, Feb. 2000, at S6 [hereinafter Weiss & Lincoln, *Accepting the Inevitable*].

12. *See infra* Part II.A.

13. *See infra* Part II.B.

14. *See id.*

secret laws of other jurisdictions[15] and the wording of the UTSA.[16] However, the decision in *Electro Optical*, and through it an employers ability to obtain an injunction preventing an employee from assuming a new employment that would threaten the confidential status of trade secret information, without an accompanying actual misappropriation, also underscores the inevitable disclosure doctrine's tension with California's strong public policy of allowing employees to change jobs freely.[17]

This comment focuses on the application of the inevitable disclosure doctrine within the confines of California's trade secret law. Part II of this comment is divided into eight sections. First, Part II.A reviews the historical origins of trade secret law.[18] Part II.B then discusses the policy underlying trade secret law.[19] Next, Part II.C discusses elements of a prima facie showing for trade secret protection,[20] including the proper subject matter for trade secret protection,[21] the requirement of confidentiality[22] and the standard for obtaining an injunction.[23] Part II.D then discusses California's current trade secret law[24] and how this law is constrained by California Business and Profession Code section 16600.[25] Finally, Part II identifies the shortcomings of California trade secret law absent the inevitable disclosure doctrine,[26] the modern origins of the doctrine,[27] and California's adoption of the doctrine through the *Electro Optical* decision.[28] Part III identifies the arguments in favor of continued recognition of the inevitable disclosure doctrine and asks whether the doctrine should become a permanent part of California's trade secret

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15. *See* Terrence P. McMahon et al., *Inevitable Disclosure: Not So Sure in the West*, THE NATIONAL LAW JOURNAL, May 12, 1997, at C35.

16. *See infra* Part II.C.2.

17. *See* John H. Matheson, *Employee Beware: The Irreparable Damage of the Inevitable Disclosure Doctrine*, 10 LOY. CONSUMER L. REP. 145 (1998).

18. *See infra* Part II.A.

19. *See infra* Part II.B.

20. *See infra* Part II.C.

21. *See infra* Part II.C.1.a., II.C.1.b.

22. *See infra* Part II.C.2.

23. *See infra* Part II.C.3.

24. *See infra* Part II.D.

25. *See infra* Part II.E.

26. *See infra* Part II.F.

27. *See infra* Part II.G.

28. *See infra* Part II.H.

law.[29] Part IV analyzes the application of the inevitable disclosure doctrine under California's trade secret law.[30] Specifically, it identifies the function of the doctrine[31] and then compares it to California's trade secret law as currently applied[32] and to California's public policy of worker mobility.[33] Finally, Part V concludes that the inevitable disclosure doctrine is consistent with California's trade secret law, and proposes that a court should make a more clear statement of the doctrine's requirements.[34]

II. BACKGROUND

A. *Historical Development of Trade Secret Law*

American trade secret laws originated in England in the early nineteenth century during that country's industrial revolution.[35] These early English trade secret cases responded to the growing concerns of business and industry regarding thefts of medicinal recipes,[36] breaches in employer/employee relationships,[37] and misuse of information acquired through licensing agreements.[38] From its beginnings, trade secret law only protected information that was both not publicly known and held in confidence.[39] Additionally, trade secret laws in England only protected against the unauthorized disclosure of such confidential information.[40] These laws did not protect against disclosures not involving a breach of confidence, such as independent discovery or disclosures by parties not in a contractual relationship with the trade secret owner.[41] Nor did early trade secret law protect against the disclosure of information that, although not pub-

29. *See infra* Part III.
30. *See infra* Part IV.
31. *See infra* Part IV.A.
32. *See infra* Part IV.B.1.
33. *See infra* Part IV.B.2.
34. *See infra* Parts V–VI.
35. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1993).
36. *See* Newbery v. James, 35 Eng. Rep. 1011 (Ch. 1817).
37. *See* Yovett v. Winyard, 37 Eng. Rep. 425 (Ch. 1820).
38. *See* Morison v. Moat, 68 Eng. Rep. 492 (Ch. 1851).
39. *See* MELVIN F. JAGER, TRADE SECRET LAW § 1.03 (1998).
40. *See* Lamb v. Evans, 3 Ch. 462 (1892); *Morrison*, 68 Eng. Rep. at 492; Green v. Folgham, 57 Eng. Rep. 159 (Ch. 1823); *Yovett*, 37 Eng. Rep. at 425.
41. *See Lamb*, 3 Ch. at 462; *Morrison*, 68 Eng. Rep. at 492; *Green*, 57 Eng. Rep. at 159; *Yovett*, 37 Eng. Rep. at 425.

licly known, was commonly known within an industry.[42]

The early state courts and legislatures in the United States recognized the importance of protecting confidential information[43] and used the English decisions as guidelines for developing their own trade secret laws.[44] Like their early English counterparts, trade secret laws in the United States only protected information held in confidence.[45] If a court found that information was intended to be confidential and that the claimant took reasonable steps to kept it secret,[46] a court could grant an injunction[47] to prevent employees or other parties[48] in expressed or implied confidential relationships[49] from disclosing the information.[50] As United States trade secret law developed, it began to diverge from its English roots. State courts began to regard employees as agents of their employers and thus prohibited employees from using

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42. *See* Badische Aniline und Soda Fabrik v. Schott, Segner & Co., 3 Ch. 447, 453 (1892).

43. *See* Fowle v. Park, 131 U.S. 88, 97 (1889).

44. *See* Vickey v. Welch, 36 Mass. 523 (1837); Melvin Jager described the *Vickey* case as:

> The first reported case involving trade secrets in the America is the 1837 decision of the Massachusetts Supreme Court in *Vickey v. Welch*. . . . The only authority cited and relied upon by the court in *Vickey* was the early English Case of *Bryson v. Whitehead*. The Massachusetts Supreme Court thereby imported the English common law concept of protection for trade secrets into the common law of the United States.

JAGER, *supra* note 39, § 2.02.

45. *See* Taylor v. Blanchard, 98 Mass. 452 (1866).

46. *See* Peabody v. Norfolk, 98 Mass. 452, 461 (1868); *see also* Kaumagraph Co. v. Stampagraph Co., 138 N.E. 485 (N.Y. 1923); Pressed Steel Car Co. v. Standard Steel Car Co., 60 A. 4 (Pa. 1904).

47. "It is quite clear that, independently of any question as to the right at law, the court of chancery always had an original and independent jurisdiction to prevent what that court considered and treated as wrong. . . ." *Pressed Steel Car Co.*, 60 A. at 10. "Equity always protects against the unwarranted disclosure and unconscionable use of trade secrets and confidential business communications." Empire Steam Laundry, Corp. v. Lozier, 165 Cal. 95, 99 (1913).

48. *See* E.I. DuPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917); *see also Empire Steam Laundry*, 165 Cal. at 95 (finding a common law duty in the employment relationship that prohibits an employee from divulging or using confidential information of the employer).

49. *See* O. & W. Thum Co. v. Tloczynski, 72 N.W. 140, 143 (Mich. 1897) (holding that an agreement not to disclose can be implied when the employer has taken all reasonable steps to keep information secret and the defendant is aware of the confidential nature of the information).

50. *See E.I DuPont de Nemours*, 244 U.S. at 103 (enjoining defendant from disclosing plaintiff's confidential information).

their employers' confidential information to compete with their former employer, even in the absence of a written agreement.[51]

This developing American common law of trade secrets was first articulated in a single comprehensive digest in 1939 when the American Law Institute ("ALI") published the Restatement (First) of Torts.[52] This publication synthesized common law with the court decisions of the day to provide a uniform definition of trade secret law.[53] The Restatement defined the required degree of secrecy a company must use to protect its confidential information[54] as well as what constitutes the improper acquisition of confidential information.[55] Additionally, the Restatement protected the "innocent infringer"—a party who acquires confidential information prior to receiving notice of its trade secret status.[56] Although the Restatement has been largely replaced by more recent statements of trade secret law, courts still use its basic text for guidance in modern cases.[57]

As business operations became more sophisticated, shortcomings in the Restatement (First) of Torts became apparent.[58] For example, the Restatement failed to extend trade secret protection to confidential information relating to a single event, or information that had a short life span, such as a

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51. *See* Eastman Co. v. Reichenbach, 20 N.Y.S. 110, 115–16 (1892).

52. *See* JAMES POOLEY, TRADE SECRETS § 2.02[1] (1998) [hereinafter POOLEY, TRADE SECRETS]. "The first major effort at synthesis of the developing U.S. law of trade secrets was the *Restatement of Torts*." *Id.*

53. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

54. "[A] substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information." *Id.*

55. *See id.* at cmt. g.

> Liability under the rule stated in this section is based not on the actor's purpose to discover another's trade secret but on the nature of the conduct by which the discovery is made. The actor is free to engage in any proper conduct for the very purpose of discovering the secret. So long as his conduct is proper, his purpose does not subject him to liability.

Id.

56. *Id.* at § 759 (declaring that an innocent acquirer of confidential information was not liable even after he received notice of the confidential status of the information if he was a bona fide purchaser for value, or had changed his position in reliance on use of the secret, so that imposition of liability would be inequitable).

57. *See, e.g.,* Optic Graphics, Inc. v. Agee, 591 A.2d 578, 585 (Md. Ct. Spec. App. 1991).

58. *See* POOLEY, TRADE SECRETS, *supra* note 52, § 2.03[1].

contract for sale or a marketing plan.[59] Further, it gave no protection to negative information—information that showed what type of action will not work[60]—and failed to provide a separate remedy for the improper acquisition of another's trade secret.[61] Finally, significant disagreement developed between state courts regarding how to interpret the Restatement in a misappropriation action.[62]

Responding to these shortcomings, the National Conference of Commissioners on Uniform State Law passed the Uniform Trade Secrets Act in 1979 to supplement the Restatement (First) of Torts.[63] The UTSA updated trade secret law by removing the Restatement's most significant limitations.[64] The UTSA eliminated the Restatement's prohibition on trade secret protection for single- or short-term information,[65] and included protection for negative information.[66] Currently, the UTSA provides the basis for trade secret laws in forty-two states and the District of Columbia.[67]

In 1995, the ALI realized that business practices had changed significantly since the publication of the Restatement (First) of Torts.[68] Trade secret law had evolved from a simple articulation of a standard of commercial morality into an important tool for encouraging investment in research and development.[69] Modern research and development practices required disseminating confidential information to a broader group of employees, agents, and licensees who could assist in exploiting the information.[70] The ALI concluded that to adequately protect these new practices, trade secret protection should be extended to any action that would violate the equi-

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59. *See* RESTATEMENT (FIRST) OF TORTS § 757, cmt. b.
60. *See* UNIF. TRADE SECRET ACT § 1(4) cmt., 14 U.L.A. 439 (1990).
61. *See* RESTATEMENT (FIRST) OF TORTS § 759.
62. *See* POOLEY, TRADE SECRETS, *supra* note 52, § 2.03[1].
63. UNIF. TRADE SECRET ACT § 1(4).
64. *See id.* at cmt.
65. *See id.* § 1(4); Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134, 144 (9th Cir. 1965).
66. *See* UNIF. TRADE SECRET ACT § 1(4) cmt.
67. *See* CAL. CIV. CODE D.4, Pt. 1, T.5 Ref & Annos (West 1997 & Supp. 2000).
68. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1993).
69. *See id.*
70. *See* Peng S. Chan & Dorothy Heide, *Strategic Alliances in Technology: Key Competitive Weapon*, 58 SAM ADVANCED MANAGEMENT JOURNAL, No. 4, Sept. 22, 1993, at 9, *available in* LEXIS, News Group File, Beyond Two Years.

table theory of unjust enrichment.[71] The ALI developed the Restatement (Third) of Unfair Competition to meet this objective.[72] In adopting the UTSA's definition of a trade secret and adopting a more expansive foundation, the Restatement (Third) of Unfair Competition provides the most inclusive trade secret protection to date.[73]

B. *Policy of Trade Secret Protection*

The ability of trade secret law to adapt to the changing commercial environment stems from its strong policy underpinnings.[74] Trade secret laws exist to prescribe and maintain standards of commercial ethics, and to encourage business investment.[75] These laws are designed to allow both individuals and businesses to secure the rights to their work product by providing an economical, timely, and flexible framework of legal protection.[76]

While the overarching policy of trade secret law can be succinctly stated, applying it to achieve these goals requires balancing three distinct but equally compelling interests.[77] First, businesses and investors have an interest in protecting their investments in proprietary information.[78] Businesses invest in new products and services if they believe a competitor will not be able to legally copy their efforts.[79] Without adequate legal protection, business would have to devote more resources to protecting what they currently have and less to developing new products and services.[80] Further, joint development projects and strategic partnerships where confidential information is shared between businesses become less attractive in the absence of trade secret assurances of confidentiality because trust between participants is diminished.[81]

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71. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38, cmt. b.

72. *See id.* cmt. a.

73. *See id.* § 39, cmt. a.

74. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 492 (1973).

75. *See id.* at 482.

76. *See* Fowle v. Park, 131 U.S. 88, 89 (1889).

77. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b.

78. *See* Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 180 (7th Cir. 1991).

79. *See Kewanee Oil Co.*, 416 U.S. at 492; *Fowle*, 131 U.S. at 98.

80. *See Kewanee Oil Co.*, 416 U.S. at 485–86.

81. *See* Brenda Sandburg, *When Strategic Alliance Leads to the Courthouse: A Trade Secrets Suit Against H-P Shows the Fine Line Between Cooperation and Competition*, THE RECORDER, Nov. 1998, at S21; *see also* Charles T.C. Compton,

Second, trade secret law factors in the rights and interests of individual employees to market their skills in the most effective manner possible.[82] Just like the modern business environment, the market for qualified employees is also extremely competitive.[83] Today, individuals are less likely to work for one employer for their entire career than they were in the past.[84] As individuals gain experience and skill, their value to an employer increases.[85] Unrestricted employee movement allows individuals to market their skills to several different employers, effectively selling their services to the highest bidder.[86] Thus, individuals are encouraged and rewarded for seeking to improve their talents and acquire new skills during their employment.[87]

Finally, trade secret law considers the interests of the public at large.[88] Trade secret law protects the public's interest in having the greatest variety and the highest quality of goods and services available.[89] This public interest is best served by having at least a minimal level of information exchange between businesses, often referred to as "informational leakage."[90] Proponents of the value of "informational leakage" point to California's Silicon Valley as support for their position.[91] As an example, the lineage of the majority of semiconductor firms in the Silicon Valley originated with former employees of a common parent, Fairchild Semiconduc-

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Cooperation, Collaboration, and Coalition: A Perspective on the Types and Purposes of Technology Joint Ventures, 61 ANTITRUST L.J. 861 (1993); Chan & Heide, *supra* note 70, at 9.

82. *See* CVD, Inc. v. Raytheon Co., 769 F.2d 842, 852 (1st Cir. 1985) ("It is also 'well settled that an employee upon terminating his employment may carry away and use the general skill or knowledge acquired during the course of the employment.'").

83. *See* Matheson, *supra* note 17.

84. *See* Morgan Chu & Gail Standish, *When Secrets Walk: Reining In "Threatened Misappropriation,"* THE INTELLECTUAL PROPERTY STRATEGIST, May 1996, at 1.

85. *See* Matheson, *supra* note 17.

86. *See id.*

87. *See id.*

88. *See* James Pooley, *Better Protection For Trade Secrets*, 5 CAL. LAW. 51 (1985) [hereinafter Pooley, *Better Protection for Trade Secrets*].

89. *See* Brunswick Corp. v. Outboard Marine Corp., 404 N.E.2d 205, 207 (Ill. 1980).

90. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

91. *See* Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants not to Compete*, 74 N.Y.U. L. REV. 575 (1999).

tor.[92] Additionally, the development of the laser printer, Ethernet, graphical user interface and the computer mouse are all largely credited to the "informational leakage" that occurred at Xerox PARC in Silicon Valley.[93] It is these three independent yet equally important interests that trade secret law attempts to balance while still providing a fair yet flexible system of legal protection.

C. *Obtaining Trade Secret Protection*

Even with the strong policy underpinnings, trade secret law does not automatically protect information simply because an individual claims information as a trade secret.[94] Under the UTSA,[95] three requirements must be met before a court will protect information from unauthorized disclosure.[96] First, the UTSA requires that the confidential information be both the proper subject matter for trade secret protection and subject to reasonable security precautions to prevent its intentional or inadvertent disclosure.[97] Second, the confidential information must have been either actually or threatened to be misappropriated.[98] Third, the evidence of misappropriation must be clear and the harm immediate before the trade secret owner is entitled to relief.[99]

1. *Proper Subject Matter and Reasonable Precautions Required by the UTSA to Prevent the Inadvertant Disclosure of Trade Secret Information*

a. *Subject Matter for Trade Secret Protection Under the UTSA*

The UTSA requires the owner of confidential information first prove that the information is the proper subject matter

92. *See* ANNA LEE SAXENIAN, REGIONAL ADVANTAGE 25 (1994).

93. *See* MICHAEL HILTZIK, DEALERS OF LIGHTNING (1999).

94. UNIF. TRADE SECRET ACT § 1(4), 14 U.L.A. 438 (1990); AMP, Inc. v. Fleischhacker, 823 F.2d 1199, 1202 (7th Cir. 1987).

95. The requirements under the UTSA are used here because the UTSA serves as the basis for the majority of state trade secret laws and the Restatement (Third) of Unfair Competition.

96. *See* UNIF. TRADE SECRET ACT § 1.

97. *See id.* § 1(4).

98. *See id.* § 1(2).

99. *See* Tubular Threading, Inc. v. Scandaliato, 443 So. 2d 712, 715 (La. Ct. App. 1983).

for trade secret protection before an action for misappropriation of such information can be heard.[100] The UTSA defines a trade secret as

> 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 (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[101]

The UTSA's drafters started with the definition of a trade secret in the Restatement (First) of Torts[102] and altered it to provide more effective trade secret protection in the current business environment.[103] The UTSA eliminated the Restatement's requirement that the confidential information be "continuously used in one's business"[104] to qualify for trade secret protection.[105] Eliminating this requirement had two direct benefits. First, it allowed trade secret protection for informa-

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100. *See* Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 892 (Minn. 1983).

101. UNIF. TRADE SECRET ACT § 1(4).

102. The Restatement's definition reads as follows:

> A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. . . Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may however relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialize customers, or a method of bookkeeping or other office management.

RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

103. *See* UNIF. TRADE SECRET ACT § 1(4) cmt.

104. Trade secret information

> differs from other secret information in a business in that is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract of the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operations of the business.

RESTATEMENT (FIRST) OF TORTS § 757 cmt. b.

105. *See* UNIF. TRADE SECRET ACT § 1(4) cmt.

tion related to a specific event,[106] such as a contract for sale, a marketing plan, and it provided protection for negative information. This type of information that by its very nature is not continuously used in a business could now be protected.[107] Second, it allowed trade secret protection for a business that possessed valuable information but had not acquired the means to utilize such information.[108]

The UTSA's trade secret definition provides protection for virtually all types of information held in confidence.[109] It expanded the scope of protectable subject matter to include both specific information—such as business plans or technical information—and more general information—commonly termed "know-how."[110] Further, the UTSA does not require that information be the exclusive property of the party claiming trade secret protection.[111] Different competitors may each protect the same information as a trade secret from those who have yet to discover it.[112] Finally, There is no requirement that the information be incorporated or embodied in a tangible form if the trade secret owner otherwise sufficiently delineates what information he or she is trying to protect.[113] However, the UTSA does not protect information that is readily ascertainable from sources not in a confidential relationship with the owner.[114]

The UTSA's definition of trade secret information focuses on the value of the information to the owner, rather than the type of information sought to be protected.[115] The UTSA's

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106. *See id.*

107. *See id.*

108. *See id.*

109. *See* US West Communications, Inc. v. Office of Consumer Advocate, 498 N.W.2d, 711, 714 (Iowa 1993).

110. *See* UNIF. TRADE SECRET ACT § 1(4).

111. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

112. *See id.*

113. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (1993); *see also infra* part III.B.1.a.

114. *See* UNIF. TRADE SECRET ACT § 1(4)(i). The definition of "trade secret" is limited to information "not . . . readily ascertainable by proper means." *Id.* The Act defines "improper means" to include "theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means." *Id.* § 1(1). The official comment to the section lists a variety of "proper means," including discovery by independent invention, reverse engineering, and observation of the item in public use. *Id.* at cmt.

115. *See id.* § 1(4)(i) (defining "trade secret" as information that "derives independent economic value, actual or potential, from not being generally known

drafters recognized that as competition in the commercial environment and the cost of research and development within an industry increase, businesses may increasingly hoard valuable information that they might not have the ability to exploit themselves, rather than risk losing any rights they may have to the information by disclosing it to others who could assist in putting the information to productive use.[116] The UTSA's focus on the value of information counters this tendency to hoard valuable information by giving businesses a greater degree of certainty as to what information can be protected.[117]

Although the UTSA's trade secret definition embodies the current trade secret law of a majority of states,[118] it has augmented rather than replaced the common law and Restatement (First) of Torts articulations of trade secret law.[119] Both definitions of a trade secret taken from the Restatement[120] and the case law developed through the common law[121] are still instructive to the extent they do not conflict with the UTSA.[122]

Information protectable as a trade secret has always been distinguished from information classified as general skill and knowledge acquired by employees during the course of their employment.[123] Trade secret information is protected from

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to . . . other persons who can obtain economic value from its disclosure or use").

116. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).

117. *See* Gary E. Weiss, *A California Employer's Guide to Protecting Against the Theft of Trade Secrets, Customers and Employees by Departing Employees*, INTELLECTUAL PROPERTY UPDATE, No. 94-1, at 1 (Winter 1994–95).

118. *See* CAL. CIV. CODE D.4, Pt. 1, T.5 Ref & Annos (West 1997 & Supp. 2000).

119. *See* Minuteman, Inc. v. Alexander, 434 N.W.2d 773, 777 (Wis. 1989); Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 898 (Minn. 1983).

120. *See supra* note 103.

121. One formulation extracted from the early English cases defined trade secret as information that

> 1) is secret either in the absolute or relative sense; 2) has been intentionally and demonstrably treated as a secret; 3) is capable of industrial or commercial application; and 4) involves an interest of the possessor, generally and economic interest, worthy of protection under established principles of equity.

JAGER, *supra* note 40, § 2.01. In addition, these courts required some type of contractual, or quasi-contractual, relationship between the parties. *See id.*

122. *See Minuteman, Inc.*, 434 N.W.2d at 777; *Electro-Craft Corp.*, 332 N.W.2d at 898.

123. *See* AMP, Inc. v. Fleischhacker, 823 F.2d 1199, 1205 (7th Cir. 1987)

disclosure, while information that forms the general skill, knowledge, training, and experience of an employee is not.[124] Distinguishing between protectable and non-protectable information is critical to trade secret law.[125] Courts, employers, and employees have all struggled to define this protectable/non-protectable distinction, yet no established demarcation exists.[126] However, relevant considerations include the uniqueness of the information to the business,[127] whether competitors have failed in their efforts to duplicate the information;[128] and whether the information is contained in physical documents retained by the departing employee.[129]

b. *Required Secrecy for Trade Secret Protection Under the UTSA*

In order to qualify for trade secret protection, information must also be properly protected from inadvertent or unauthorized disclosure.[130] The issue of accessibility of information to the public is an essential characteristic of a trade secret[131] and as such is a threshold question in every case.[132] Trade secret law requires that an owner constantly protect his or her confidential information because upon releasing it into the public domain, the public's interest in free dissemination of information, the employee's interest in unrestricted mobility, and other businesses' interests in competition all preempt the trade secret owner's interest.[133]

(citing MBL (USA) Corp. v. Diekman, 445 N.E.2d 418, 424 (Ill. App. Ct. 1983) (stating that general skill and knowledge 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 analysis")).

124. *See id.*

125. James Pooley, *Property or Confidentiality? Policy Poles Conflict*, THE NATIONAL LAW JOURNAL, Jan. 26, 1998, at C24 [hereinafter Pooley, *Property or Confidentiality?*].

126. *See* POOLEY, TRADE SECRETS, *supra* note 52, § 2.03[7].

127. *See* GTI Corp. v. Calhoon, 309 F. Supp. 762, 770–72 (S.D. Ohio 1969).

128. *See* Head Ski Co., Inc. v. Kam Ski Co. Inc., 158 F. Supp. 919, 923–24 (D. Md. 1958).

129. *AMP, Inc.*, 823 F.2d at 1204–05).

130. *See* UNIF. TRADE SECRET ACT § 1(4)(ii), 14 U.L.A. 439 (1990).

131. *See* Jet Spray Cooler, Inc. v. Crampton, 282 N.E.2d 921, 925 (Mass. 1972).

132. *See* JAGER, *supra* note 39, § 5.05[1] (citing Woven Elecs. Corp. v. Advance Group, Inc., 930 F.2d 913, 916 (4th Cir. 1991); Selection Research, Inc. v. Murman, 433 N.W.2d 526, 532 (Neb. 1989); Microbiological Research Corp. v. Muna, 625 P.2d 690, 696 (Utah 1981)).

133. *See* Wexler v. Greenberg, 160 A.2d 430, 435 (Pa. 1960).

Trade secret law places the burden of protecting the confidential status of information on the trade secret owners, in part because, the owners are in a superior position to identify and protect their rights.[134] It would be both unworkable and unreasonable to require a departing employee, new employer, or recipient of information apparently legally obtained to research the lineage of newly acquired information to ensure it is not protected as a trade secret.[135] This requirement also assists the trier of fact in a misappropriation action in determining if the information is properly subject to trade secret protection, and if so, whether a misappropriation actually occurred.[136]

Initially, trade secret law did not definitively outline the degree of secrecy required to protect information as a trade secret.[137] Some early court's required absolute secrecy, while others held that secrecy was a matter of degree based on the facts and circumstances of the case and the value of the information to the owner.[138] Over time, the majority view held trade secret law does not require information to be kept absolutely secret for protection.[139] Currently, a party claiming trade secret protection must show it took "reasonable precautions" under the circumstances to prevent the inadvertent disclosure of the information.[140]

The "reasonable precautions" standard requires that the putative owner demonstrate an intent to keep the information confidential[141] and adopted measures to prevent the information from passing into the public domain.[142] This is a fact-based requirement,[143] that allows the fact finder to use his or her common sense.[144] Information will not lose its

134. *See* Victoria A. Cundiff, *How to Identify Your Trade Secrets in Litigation*, PATENTS, COPYRIGHTS, TRADEMARKS, & LITERARY PROPERTY COURSE HANDBOOK SERIES 557, 559 (PRACTICING LAW INSTITUTE 1999).

135. *See id.*

136. *See id.* at 560.

137. *See* K-2 Ski Co. v. Head Ski Co, Inc., 506 F.2d 471, 473 (9th Cir 1974).

138. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. g (1993).

139. *See* Surgidev Corp. v. Eye Tech., Inc., 828 F.2d 452, 455 (8th Cir. 1987).

140. UNIF. TRADE SECRET ACT § 1(4) cmt., 14 U.L.A. 439 (1990).

141. *See* Cherne Indus., Inc. v. Ground & Assocs., Inc., 278 N.W.2d 81, 90–91 (Minn. 1979).

142. *See* Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 147 (1989).

143. *See* Granholz v. Sears, Roebuck & Co., 869 F.2d 390, 393 (8th Cir. 1989).

144. *See* L.M. Rabinowitz & Co., Inc. v. Dasher, 82 N.Y.S.2d 431, 439 (N.Y.

status as a trade secret simply because the holder fails to take every conceivable step to keep the information confidential.[145] In practice the secrecy requirement operates on a continuum: the more critical or important the information, the greater the required showing of confidentiality for trade secret protection.[146]

Precautionary measures that demonstrate a trade secret owner's reasonable precautions to keep information confidential include the following: requiring employees to sign confidentiality agreements,[147] notifying employees of what information is restricted,[148] using non-disclosure agreements for both employees and non-employees,[149] restricting access to sensitive information by requiring passwords,[150] retaining control over the distribution of documents containing trade secret information,[151] and conducting entrance and exit interviews of employees.[152]

Additionally, the conduct of a defendant in a misappropriation action also demonstrates whether information has been sufficiently protected as a trade secret.[153] For example, the fact that a defendant submitted to the security measures of an employer and signed a confidentiality or non-disclosure agreement during their employment, while not determinative, is strong evidence of the confidential status of the information.[154]

The "reasonable precautions" standard for protecting information gives the trade secret owner an important right that is essential to modern business. This standard allows the owner of the information to make a limited disclosure of

Sup. Ct. 1948) (finding that prior to employment with plaintiff, defendant did not have the ability to make the infringing device).

145. *See* Trandes Corp. v. Guy F. Atkinson Co., 996 F.2d 655, 664 (4th Cir. 1993).

146. *See* Greenberg v. Croydon Plastics Co., Inc., 378 F. Supp. 806, 813–814 (E.D. Pa. 1974).

147. *See* Avnet Inc. v. Wyle Lab., Inc., 437 S.E.2d 302, 305–06 (Ga. 1993).

148. *See* MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 521 (9th Cir. 1992).

149. *See Trandes Corp.*, 996 F.2d at 664.

150. *See Id.*

151. *See Id.*

152. *See* JAGER, *supra* note 39, § 5.05[2][c][viii].

153. *See* Fairchild Engine & Airplane Corp. v. Cox, 50 N.Y.S.2d 643, 650 (1944).

154. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (1993).

the confidential information without losing the information to the public domain.[155] For example, the owner may divulge trade secret information to another party under express or implied confidentiality agreements without losing the ability to prevent further dissemination of the information.[156] This right enables the owner of a trade secret to entrust significantly more information to their employees or enter into joint venture/development agreements with other businesses.[157]

2. *Showing a Misappropriation of Trade Secrets Under the UTSA*

After establishing that a trade secret exists, the party claiming trade secret protection must also show that the information was either actually misappropriated or has been threatened to be misappropriated.[158] However, courts in misappropriation actions often do not distinguish between an actual and a threatened misappropriation.[159] In both instances courts generally require that the trade secret holder prove an actual misappropriation by direct evidence.[160] This requirement appears to limit actions for a threatened misappropriation of trade secrets to situations where trade secret information has already been taken, and its wrongful possession constitutes a threat of further dissemination.[161]

Still, under trade secret law as it is written, a misappropriation of trade secret information exists if the information has been, or has been threatened to be, used in any fashion for the benefit of the infringer, or used in a way that will harm the owner irrespective of whether the information has been taken in a tangible or intangible form.[162] Since both the scope and policy of trade secret law has expanded,[163] the spectrum of activities that constitute a misappropriation is only

155. *See* UNIF. TRADE SECRET ACT § 1(2)(i), 14 U.L.A. 438 (1990); *see also* Kamin v. Kuhnau, 374 P.2d 912, 919 (Or. 1962).

156. *See id.*

157. *See* POOLEY, TRADE SECRETS, *supra* note 52, § 6.03.

158. *See* UNIF. TRADE SECRET ACT § 2(a).

159. *Compare* Surgidev Corp., v. Eye Tech., Inc., 648 F. Supp. 661 (D. Minn. 1986), *with* Gach v. Franolich, 525 A.2d 525 (Conn. App. Ct. 1987).

160. *See Gach*, 525 A.2d at 525.

161. *See* Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999).

162. *See* UNIF. TRADE SECRET ACT § 2.

163. *See supra* Parts II.A., II.B.

limited by the distinction between proper and improper competition.[164] Thus, courts are not limited to finding a misappropriation in situations where the infringing party obtains the trade secret information through traditional improper actions such as "theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means."[165] Rather, modern courts evaluate all the circumstances surrounding the acquisition of the information to determine if a party used improper means to acquire it.[166]

The classic example of the use of improper means to obtain trade secret information occurred in *E.I. duPont de Nemours & Co. v. Christopher*.[167] In that case, the court found that the defendant's aerial photographs of a competitor's manufacturing facility taken during its construction, although otherwise lawful, was an improper misappropriation of confidential information under the circumstances.[168] The defendant's actions were done for the sole purpose of discovering the trade secrets of a competitor.[169] The court soundly rejected the defendant's argument that the information was in plain view, because of the impracticality of covering the manufacturing facility during its construction.[170]

Other traditional activities that courts have found improper include, memorizing confidential information,[171] obtaining information using false pretenses,[172] searching through a competitor's trash,[173] and hiring specific employees for the purposes of gaining their employers' trade secrets.[174] Modern courts may prohibit any action where "the means of acquisition are inconsistent with accepted principles of public

164. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1993).
165. *Id.*
166. *See* E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1016 (5th Cir. 1970).
167. *Id.* at 1012.
168. See *id.*
169. *See id.*
170. *See id.* at 1016–17.
171. *See* Fairchild Engine & Airplane Corp. v. Cox, 50 N.Y.S.2d 643, 654 (1944).
172. *See* Continental Data Sys., Inc. v. Exxon Corp., 638 F. Supp. 432 (E.D. Pa. 1986).
173. *See* Tennant Co. v. Advance Mach. Co., 355 N.W.2d 720 (Minn. Ct. App. 1984).
174. *See* Bancroft-Whitney Co. v. Glen, 411 P.2d 921 (Cal. 1966).

policy [of trade secret law] and [mitigated by] the extent to which the acquisition was facilitated by the trade secret owners failure to take reasonable precautions against discovery by the means in question."[175]

A trade secret holder can also demonstrate a trade secret misappropriation by proving a third party's wrongful use of the information without showing it was improperly acquired.[176] This type of misappropriation often occurs in the context of a joint venture or a similar situation.[177] The trade secret owner must show that the information was transferred during a confidential relationship[178] and the recipient knew the nature of the relationship.[179] A confidential relationship can be shown by an express agreement, a course of conduct between the parties,[180] or the type of transaction involved.[181] After establishing the relationship, the trade secret owner need only show that the recipient's use of the information exceeded that authorized by the relationship, or that the possession of the information constitutes a threat of unauthorized use.[182]

3. *Trade Secret Owner Entitlement to Injunctive Relief*

Once the trade secret owner proves the existence of a protectable trade secret and that the information has either been misappropriated or a misappropriation is threatened, the owner must prove that he is entitled to an injunction.[183] Specifically, the trade secret holder's interest in protecting the information must outweigh any harm the injunction will cause

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175. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. c (1993).

176. *See* Richardson v. Suzuki Motor Co., 868 F.2d 1226, 1243 (9th Cir. 1972); *see also* Sandburg, *supra* note 82, at S21.

177. *See supra* note 77 and accompanying text.

178. *See* Kamin v. Kuhnau, 374 P.2d 912 (Or. 1962).

179. *See* Faris v. Enberg, 158 Cal. Rptr. 704, 709 (Ct. App. 1985).

180. *See* Vantage Point, Inc. v. Parker Brothers, Inc., 529 F. Supp. 1204, 1216 (E.D.N.Y. 1981). However, just as a course of conduct can show that the information was meant to be confidential, it can also imply that the information was not meant to be confidential. *See* Flotec, Inc. v. Southern Research, Inc., 16 F. Supp. 2d 992, 1007 (S.D. Ind. 1998) (finding no theft of trade secret where the owner did not mark drawings confidential before giving them to a competitor, made no oral declarations that plans were confidential, and did not require the competitor to sign a confidentiality agreement).

181. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (1993).

182. *See id.* § 40, cmt. c; UNIF. TRADE SECRET ACT § 1(2)(ii), 14 U.L.A. 438 (1990).

183. *See* Morlife, Inc. v. Perry, 66 Cal. Rptr. 2d 731, 735–36 (Ct. App. 1997).

the defendant.[184] In balancing the interests of the trade secret owner and the former employee, the court will consider the likelihood of the plaintiff's success on the merits of the case, the threat of irreparable harm to the plaintiff if the injunction is not imposed, the relative apportionment of harm between the parties, and the public's interest in the outcome of the controversy.[185] These factors allow a court to balance the three competing interests underlying trade secret law and issue an injunction consistent with its policy.[186]

D. *California's Adoption of the Uniform Trade Secrets Act*

California adopted the UTSA as the basis for the CTSA, which became effective in 1985.[187] The California Legislature passed the CTSA to clarify California's trade secret law, which at the time seemed to lend support for almost any abstract proposition in a misappropriation action.[188] The CTSA followed the general guidelines and policies promulgated by the UTSA for trade secret protection, but altered certain provisions to conform with the policies of the state.[189] For example, the CTSA does not prohibit trade secret protection for information simply because such information is available from public sources,[190] although such a claim can be raised as an affirmative defense.[191] Further, California does not excuse an infringing party's actions simply because the infringing party could have developed the information himself or herself.[192] If a defendant acted improperly in acquiring confidential information, California courts are likely to disregard the existence of legal alternative to acquire the information and find a misappropriation.[193]

184. *See* Alaska v. Native Village of Venetie, 856 F.2d 1384, 1388 (9th Cir. 1988).

185. *See id.*

186. *See id.*

187. CAL. CIV. CODE § 3426 (West 1999).

188. *See* Pooley, *Better Protection for Trade Secrets*, *supra* note 88, at 51.

189. The CTSA does not follow the UTSA requirement that trade secret information not be readily ascertainable. *See* CAL. CIV. CODE § 3426.1(d)(1) (West 1999).

190. *See* Imi-Tech Corp. v. Gagliani, 691 F. Supp. 214, 231 (S.D. Cal. 1987).

191. *See* Pooley, *Better Protection for Trade Secrets*, *supra* note 88, at 51.

192. *See* Morlife, Inc. v. Perry, 66 Cal. Rptr. 2d 731, 735–36 (Ct. App. 1997).

193. *See* Richardson v. Suzuki Motor Co., 868 F.2d 1226, 1243 (9th Cir. 1972); JAGER, *supra* note 39, § CA.01 ("California punishes the wrongful acquisition of information, even if it could have been obtained legally.").

However, even with the liberal scope of the CTSA, California courts will not find a misappropriation for every improper acquisition or disclosure of confidential information.[194] The CTSA requires that the trade secret owner prove that an infringing party possesses the capabilities to benefit from wrongfully acquired information.[195] But, if the recipient is capable of using the information, its mere possession may be sufficient to establish liability, even without actual use.[196]

E. *California Business & Professions Code Section 16600*

The CTSA's requirement that a trade secret infringer have the ability to exploit the information is related to California's broader public policy of relatively unrestricted worker mobility, illustrated by section 16600 of the California Business and Profession Code.[197] This section provides that "every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void."[198] Essentially, this section prohibits enforcement of "do-not-compete" covenants between parties that extend past the termination of a formal relationship.[199] Such covenants most commonly occur in the employee-employer context when employees agree not to (1) work for a competitor for a period of time, (2) work in specific industry, or (3) work in a geographical area after they leave their current employer.[200] California courts strictly interpret section 16600, upholding such agreements in only a limited number of situations.[201]

However, despite the broad interpretation of section 16600 it has never been interpreted as a per se prohibition on

194. *See* Gibson-Homans Co. v. Wall-Tite, Inc., No. 92-2750-JGD, 1992 WL 512411 (C.D. Cal. Oct. 27, 1992).

195. *See id.*

196. *See Morlife*, 66 Cal. Rptr. 2d at 731.

197. CAL. BUS. & PROF. CODE § 16600 (West 1999).

198. Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

199. *See* Scott v. Snelling & Snelling, Inc., 732 F. Supp. 1034, 1040–41 (N.D. Cal. 1990).

200. *See id.* at 1042.

201. California does not follow a "rule of reason" in interpreting covenants that restrain competition under section 16600. Furthermore, while California courts may, in some circumstances, apply a "rule of reason" to partial restrictions on competition, they have not recognized geographical and temporal restrictions on competition as merely partial restrictions. Rather, California courts do not give force to such situations. *See id.*

all covenants not to compete.[202] California courts have fashioned certain exceptions to section 16600's overarching rule to prevent situations that amount to unfair competition.[203] For example, courts allow employers to prevent a departing employee from disclosing its trade secrets in subsequent employment.[204] Further, a court may limit the tasks a former employee may undertake in a new job, even in the absence of threatened trade secret misappropriation.[205] In addition, courts may enforce restrictions contained in a license agreement even after the termination of the agreement.[206]

F. *California Law Prior to the* Electro Optical *Decision*

Prior to *Electro Optical* in 1999, the California courts, at least officially, followed the traditional requirements for proving a misappropriation of trade secrets. The trade secret owner had to prove that the alleged infringing party was in wrongful possession of its trade secrets and also had the capabilities to exploit the information.[207] The problems created by California's traditional approach and the high financial stakes in the debate over the inevitable disclosure doctrine are best illustrated by the case of *Advanced Micro Devices, Inc. v. Hyundai Electronics America*.[208]

Advanced Micro Devices ("AMD"), located in Santa Clara, California,[209] designs and manufactures computer microprocessors, related peripherals, memory, programmable logic devices, and circuits for telecommunication and networking ap-

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202. *See id.* at 1043.

203. *See* Monogram Indus., Inc. v. SAR Indus., Inc., 134 Cal. Rptr. 714, 718 (Ct. App. 1976).

204. *See Scott*, 732 F. Supp. at 1043 ("[I]f a former employee uses a former employer's trade secrets or otherwise commits unfair competition, California courts recognize a judicially created exception to section 16600 and will enforce a restrictive covenant in such a case.").

205. *See* Campbell v. Stanford Univ., 817 F.2d 499, 502–03 (9th Cir. 1987).

206. *See* King v. Gerold, 240 P.2d 710, 712 (Cal. Ct. App. 1952).

207. *See* Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999). "Obtaining an injunction under a threatened misappropriation claim has historically required a showing of an intent to disclose trade secrets. For example, the unauthorized removal of confidential documents by an employee may be interpreted as an intent to misappropriate trade secrets." Pascal W. DiFronzo, *When Lips Aren't Sealed*, LEGAL TIMES, Apr. 8, 1996, at 46.

208. First Amended Complaint, Advanced Micro Devices, Inc. v. Hyundai Elecs. Amer., Santa Clara County Superior Court No. CV 752679 (Oct. 24, 1995).

209. *Id.* ¶ 3.

plications.[210] In 1988, AMD announced its intention to enter into the burgeoning market for a new type of computer memory called flash memory.[211] Flash memory was an emerging market in the semiconductor industry and was expected to be a high-growth market for the foreseeable future.[212] Since 1991, AMD has spent over one billion dollars on the research and development of their flash memory devices.[213]

As a result of its investment, AMD has become one of the industry leaders in flash memory.[214] In 1994, AMD had an estimated forty percent of the worldwide market for flash memory,[215] and its estimated revenue from the flash memory division was $510 million in 1995 and $550 million in 1996.[216] By 1996, flash memory had become AMD's major product line, generating more revenue for the company than its microprocessor business.[217] Some analysts predicted the market for flash memory would continue to grow to over nine billion dollars by the year 2000.[218]

AMD protected aspects of its flash memory products as a trade secret, including, (1) the identification of key employees on the project, (2) the design of its flash memory devices, (3) the product's performance, and (4) marketing plans for flash memory devices.[219] AMD instituted and followed security pre-

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210. *Id.* ¶ 9.

211. Michael R. Leibowitz, *Cash for Flash: A Challenge to Vendors of EPROM Chips; Flash Technology Erasable Programmable Read Only Memory*, 14 ELECTRONIC BUSINESS, at 18, Aug. 1, 1998, *available in* LEXIS, News Group File, Beyond Two Years.

212. *Hyundai Electronics America Announces Availability of Flash Memory Card Products*, BUSINESS WIRE, May 28, 1996, *available in* LEXIS, News Group File, Beyond Two Years.

213. *See* First Amended Complaint *supra* note 209, ¶ 11.

214. *See* Ismini Scouras, *Looking Forward and Backward—Analyzing the Similarities and Differences Between DRAM and Flash Chips Provides Valuable Market Insight*, ELECTRONIC BUYERS' NEWS, Oct. 13, 1997, at E12.

215. *See* Hugh G. Willet, *AMD Puts Muscle Behind Flash*, ELECTRONIC BUYERS' NEWS, Sept. 19, 1994, *available in* LEXIS, News Group File, Beyond Two Years.

216. *See* Anthony Cataldo, *AMD, Fujitsu Modify Agreement*, ELECTRONIC BUYERS' NEWS, Nov. 4, 1996, *available in* 1996 WL 12489766.

217. *See* Anthony Cataldo, *Hyundai Proceeds, Despite AMD*, ELECTRONIC BUYERS' NEWS, May 13 1996, *available in* 1996 WL 9427423 [hereinafter Cataldo, *Hyundai Proceeds*].

218. *See* James Carbone, *Flash Tags Drop as Market Grows and Capacity is Added; Electronic Flash Memory Chips*, 4 PURCHASING, Vol. 123, Sept. 18, 1997, at 53, *available in* LEXIS, Magazine Stories, Combined.

219. *See* First Amended Complaint, *supra* note 208, ¶ 12–15.

cautions to prevent both the unauthorized or inadvertent disclosure of its confidential information.[220] These security precautions included requiring all AMD employees to sign confidentiality agreements as a condition of their employment.[221] These confidentiality agreements created a contractual duty on the part of the employee not to disclose to any unauthorized person, or use for any unauthorized purpose, AMD's confidential information.[222]

In June 1995, Hyundai Electronics America ("Hyundai") announced it was creating a flash memory division in Santa Clara, California that would directly compete with established manufactures of flash memory, including AMD.[223] Hyundai announced they would bring their new flash memory products to market by the second half of 1996.[224] Hyundai hired a former director of product marketing for AMD's flash memory division to head Hyundai's flash memory program.[225] Hyundai gave the former AMD employee "carte blanche" to make Hyundai a "successful player" in the flash memory market.[226] Hyundai then began to hire other AMD employees to staff its flash memory project.[227]

AMD believed that Hyundai was hiring its employees to obtain AMD's flash memory trade secrets, save on the cost of research and development, and get to market more quickly.[228]

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220. *See id.* ¶ 19.

221. *See id.* ¶ 17.

222. *See id.* ¶ 18.

223. *See* Anthony Cataldo, *Hyundai Maps Flash Entry; Hyundai Electronics Create Flash Memory Division in the US*, 41 ELECTRONIC NEWS No. 2069, June 12, 1995, at 1, *available in* LEXIS, News Group File, Beyond Two Years [hereinafter Cataldo, *Hyundai Maps Flash Entry*].

224. *See id.*

225. *See id.* Steve Grossman, former head of AMD's Non-Voltile Memory Division, was considered a prime factor in establishing AMD as one of the world's leading flash vendors. *See* Ismini Scouras & Jonathan Cassell, *AMD Takes Hyundai to Court*, 1002 ELECTRONIC BUYERS NEWS, Apr. 15, 1996, *available in* 1996 WL 9427003.

226. Cataldo, *Hyundai Maps Flash Entry*, *supra* note 223, at 1.

227. *See* Cataldo, *Hyundai Proceeds*, *supra* note 218.

228. *See supra* note 209, ¶ 25. AMD announced its intention to enter into the flash memory market in 1988, *See* Leibowitz, *supra* note 212 at 18, and announced its first cost-effective flash memory device 1992, *AMD Announces 5.0-volt Flash Memory Device*, BUSINESS WIRE, Apr. 13, 1992, *available in* LEXIS, News Group File, Beyond Two Years. In contrast, Hyundai expected to start a flash memory product division and bring its flash memory products to market in about sixteen months. *See* Cataldo, *Hyundai Maps Flash Entry*, *supra* note 223.

In response, AMD filed a complaint in the Superior Court of Santa Clara County in October 1995 alleging, among other causes of action, that Hyundai misappropriated AMD's flash memory trade secret information.[229] Unlike more traditional misappropriation actions,[230] there was no direct evidence that the former AMD employees took any trade secret information with them, or were using AMD's confidential information at Hyundai.[231] Instead, to prove its case, AMD relied on the timing of Hyundai's announcement of the creation of its flash memory division, the subsequent departure of AMD's employees to work for Hyundai, and Hyundai's short time to bring its products to market. Essentially, AMD had to convince the court that, under the circumstances, it is inevitable that the former AMD employees would use AMD's confidential information to make flash memory for Hyundai.[232]

AMD eventually prevailed in this action and obtained a preliminary injunction preventing the former AMD employees form working on certain jobs for Hyundai using the inevitable disclosure doctrine.[233] This case has since settled[234] ending the possibility of an appellate review.[235] Although the settlement resolved the issue of potential disclosure of trade secrets between AMD and Hyundai in this action, it did nothing to quell the debate over California's adoption of the doctrine[236] nor did it provide any guidance to other businesses or employees on how to structure their affairs.

G. *Rebirth of the Inevitable Disclosure Doctrine*

The inevitable disclosure doctrine addresses the problems a trade secret owner, such as AMD, face in protecting its confidential information.[237] The inevitable disclosure doctrine allows a plaintiff to prove a misappropriation of trade secrets

229. *See supra* note 209.

230. *See* Doubleclick, Inc. v. Henderson, No. 116914/97, 1997 WL 731413 (N.Y. Sup. Ct. Nov. 7, 1997); DiFronzo, *supra* note 207, at 46.

231. *See supra* note 209.

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

233. *See* Cataldo, *Hyundai Proceeds*, *supra* note 217.

234. *See AMD, Hyundai Settle Trade-Secrets Case*, L.A. TIMES, Nov. 19, 1996.

235. *See* Perry Viscounty & Michael E. Zahm Jr., *Disclose Calls—Courts Balance Competing Interests in Trade Secrets Cases*, S.F. DAILY JOURNAL, July 5, 1996, at 4.

236. *See generally* McMahon et al., *supra* note 15.

237. *See id.*

by showing that a former employee constitutes a threat to disclose their confidential information without proving an accompanying actual misappropriation.[238]

Although the inevitable disclosure doctrine itself is not novel, there is a resurgence of interest since the Seventh Circuit's decision of *PepsiCo v. Redmond.*[239] In *PepsiCo*, the court applied the Illinois version of the UTSA[240] in upholding a district court's injunction preventing the defendant from assuming his responsibilities at a new job for six months.[241] The court found that the similarities between the defendant's former and future jobs, together with the defendant's actions in leaving his former employer, indicated he could not be trusted to keep his former employer's trade secrets confidential.[242]

The defendant in *PepsiCo*, William Redmond, was a high-level executive at PepsiCo[243] with responsibility for Pepsi's North American division business unit for northern California.[244] In this capacity, Redmond had access to PepsiCo's confidential information that, if disclosed, would undermine PepsiCo's ability to compete in the fiercely competitive beverage industry.[245] This information included PepsiCo's annually-updated "Strategic Plan," outlining the company's goals for the following three years;[246] the "Annual Operating Plan," containing specific information about PepsiCo's activities for the upcoming year;[247] the company's pricing structure;[248] its "Attack Plan," detailing what activities PepsiCo would take to gain market share in a specific region;[249] and information on PepsiCo's new product delivery system.[250] PepsiCo viewed this information as highly confidential[251] because it repre-

238. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.
239. *PepsiCo*, 54 F.3d at 1262.
240. *See* POOLEY, TRADE SECRETS, *supra* note 52, § 2.03[7][a].
241. *See PepsiCo*, 54 F.3d at 1262.
242. *See id.* at 1271.
243. *See id.*
244. *See id.* at 1264.
245. *See id.* at 1265.
246. *See id.* at 1266.
247. *See PepsiCo*, 54 F.3d at 1266.
248. *See id.*
249. *See id.*
250. *See id.*
251. *See id.*

sented a substantial investment of both time and resources,[252] and was not known in the industry.[253]

During Redmond's employment with PepsiCo, he entered into employment negotiations with a major competitor in the beverage industry, the Quaker Oats Company ("Quaker").[254] Redmond was recruited by another former PepsiCo employee working for Quaker who headed the division where Redmond would work. Quaker offered Redmond a position involving many of the same duties he performed at PespiCo.[255] Redmond concealed his negotiations with Quaker from his superiors at PepsiCo, including denying he was even considering leaving PepsiCo, until after he accepted a job offer, and delayed two days longer to submit his resignation.[256] Particularly troubling to the court was the fact that while negotiating with Quaker, Redmond continued to perform his job duties at PepsiCo.[257]

The *PepsiCo* court acknowledged that lawsuits alleging only a threatened misappropriation of trade secrets heighten the tension between trade secret law's policy of protecting the standards of commercial morality and the rights of workers to pursue a livelihood.[258] However, the court ultimately concluded that prohibiting a party from undertaking a new endeavor for a reasonable period of time is proper if: (1) the employee has knowledge of the employer's trade secrets; (2) the new employment involves the same, or substantially similar, duties or technology as the former employment; and (3) the employee cannot be trusted to avoid using these trade secrets in his or her new job.[259] Under the facts of the case, the com-

252. *See id.* at 1265.
253. *See PepsiCo*, 54 F.3d at 1267.
254. *See id.* at 1265.
255. *See id.*
256. *See id.*
257. *See id.*
258. *See id* at 1269.
259. The court explained:

> It is not the "general skills and knowledge acquired during his tenure with" [the former employer] that [the former employer] seeks to keep from falling into [the new employer's] hands, but rather "the particularized plans or processes . . . disclosed to him while the employer-employee relationship existed, which are unknown to others in the industry and which give the employer an advantage over his competitors."

PepsiCo, 54 F.3d at 1272. (quoting AMP Inc. v. Fleischhacker, 823 F.2d 1199 (7th Cir. 1987)).

bination of Redmond's knowledge of PepsiCo's trade secrets, the similarities between his position with PepsiCo and Quaker Oats, and his behavior surrounding his departure from PepsiCo, warranted issuing an injunction.[260]

Since its rebirth in *PepsiCo*, the inevitable disclosure doctrine has received mixed reviews. Litigants have obtained injunctions where a party uses confidential information for purposes other than those for which it was disclosed,[261] when an employee stockpiles confidential information immediately prior to leaving the job,[262] when a party's new undertaking cannot be accomplished without using another's confidential information,[263] when the likelihood of misappropriation and subsequent harm substantially outweighs the effects of an injunction,[264] and when the defendant's own activities demonstrate an inability to retain the secrecy.[265] In contrast, courts refused to grant injunctions in cases where subsequent activities did not involve the subject matter of the confidential information,[266] where the information lost its value as a secret,[267] where the grant of an injunction would effectively preclude a person from employment,[268] and where the injunction would provide a greater remedy than allowed by the governing law.[269] In all of these cases, the courts balanced the policy of protecting the confidential information against the policy of allowing individuals to pursue gainful employment.[270]

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260. *Id.*

261. *See* Southwestern Energy Co. v. Eickenhorst, 955 F. Supp. 1078 (W.D. Ark. 1997).

262. *See* Ackerman v. Kimball Int'l, Inc., 652 N.E.2d 507 (Ind. 1995).

263. *See* La Calhene, Inc. v. Spolyar, 938 F. Supp. 523 (W.D. Wis. 1996); Neveux v. Webcraft Tech., Inc., 921 F. Supp. 1568 (E.D. Mich. 1996); Uncle B's Bakery, Inc. v. O'Rourke, 920 F. Supp. 1405 (N.D. Iowa 1996); Lumex, Inc. v. Highsmith, 919 F. Supp. 624 (E.D.N.Y. 1996).

264. *See* Branson Ultrasonics Corp. v. Stratman, 921 F. Supp. 909 (D. Conn. 1996); *Lumex*, 919 F. Supp. at 624.

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

266. *See* Bridgestone/Firestone, Inc. v. Lockhart, 5 F. Supp. 2d 667 (S.D. Ind. 1998); APAC Teleservices, Inc. v. McRae, 985 F. Supp. 852 (N.D. Iowa 1997).

267. *See* Campbell Soup Co. v. Giles, 47 F.3d 467 (1st Cir. 1995); Glaxo Inc. v. Novopharm Ltd., 931 F. Supp. 1280 (E.D.N.C. 1996); FMC Corp. v. Cyprus Foote Mineral Co., 899 F. Supp. 1477 (W.D.N.C. 1995).

268. *See FMC Corp.*, 899 F. Supp. at 1477.

269. *See* Multiform Desiccants v. Sullivan, No. 95-CV-0283E(F), 1996 WL 107102 (W.D.N.Y. Mar. 8, 1996).

270. *See* Litton Systems, Inc. v. Sundstrand Corp., 750 F.2d 952, 960 (Fed. Cir. 1984); *see also* Robinson v. Jardine Ins. Brokers Int'l Ltd., 856 F. Supp. 554, 559 n.20 (N.D. Cal. 1994).

H. *California's Adoption of the Inevitable Disclosure Doctrine*

In 1999, the California Court of Appeal for the Second District expressly adopted the inevitable disclosure doctrine in *Electro Optical Industries, Inc. v. White*.[271] This was the first California jurisdiction to allow a trade secret owner to use the inevitable disclosure doctrine as a basis for proving a trade secret misappropriation, even though courts in other jurisdictions applying California law and some superior courts in California had found inevitable disclosure doctrine was recognized under the CTSA.[272]

The defendant in *Electro Optical*, Stephen White, was a sales manager for Electro Optical Industries ("EOI").[273] EOI is one of only three to six companies worldwide that manufactured and sell infrared test equipment.[274] White held his position at EOI for about fifteen years and was a key sales contact between EOI and its customers. He knew EOI production costs, customer lists, marketing plans and financial matters, and, though not an engineer, had acquired technical information about the design and manufacture of EOI's current and future products.[275]

In April 1999, White answered a newspaper advertisement for a position as a sales manager at Santa Barbara Infrared, Inc. ("SBI"), a competitor of EOI.[276] SBI hired White to create a list of potential customers for SBI and to develop a profile of SBI's competitors, specifically outlining their strength and weaknesses.[277]

At the time of White's resignation, EOI filed a complaint contending that White would inevitably disclose EOI's confidential information in his new job at SBI.[278] EOI alleged

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271. Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

272. *See* Surgidev Corp., v. Eye Tech., Inc., 648 F. Supp. 661, 679 (D. Minn. 1986); Viscounty & Zahm, *supra* note 236.

273. *See Surgidev Corp.*, 648 F. Supp. at 682.

274. *See id.*

275. *See id.*

276. *See id.*

277. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680, 682 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

278. *See id.*

White would rely on EOI's non-technical trade secrets, including EOI's customer list, customer requirements, production costs, sales prices, sales volume, and marketing plans in making SBI more competitive.[279] Additionally, EOI believed White's new job would require him to use his technical knowledge of EOI's products', including information about existing and future designs, production methods, materials, processes, and patent applications.[280]

The appellate court affirmed the lower court's denial of EOI's request for an injunction on two grounds. First, much of the information that EOI alleged was threatened by White's new job either did not constitute a trade secret or was not threatened by White's action.[281] EOI's customer list did not qualify as a trade secret because there were only approximately 100 entities worldwide that purchased infrared test equipment[282] and it would not be difficult to learn their identities.[283] Further, EOI's production costs and technical information, although confidential, were irrelevant in this action. EOI did not show that SBI could use this information or that White had the ability to disclose it.[284]

Second, EOI had not proven that it would suffer the requisite degree of harm if the injunction was not issued.[285] In balancing the respective harm to each party, the court found that White would be unemployed for a period of time if the injunction was granted, but there was no evidence EOI would suffer any harm if the injunction was withheld.[286] EOI and SBI compete for sales on only one-third of their products.[287] In the instances where they do compete, the competition is based on the technology of the equipment, not its price, and the price of the equipment was not a trade secret.[288]

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279. *See id.*
280. *See id.*
281. *See id.* at 685–87.
282. *See id.* at 682.
283. *See Electro Optical Indus.*, 90 Cal. Rptr. 2d at 685 ("A customer list may be considered a trade secret where the identity of customers itself has economic value.").
284. *See id.*
285. *See id.* at 686.
286. *See id.*
287. *See id.*
288. *See id.*

III. IDENTIFICATION OF THE PROBLEM

While the court in *Electro Optical* has answered the question of whether California will recognize the inevitable disclosure doctrine, in at least in the view of one appellate jurisdiction, the question still remains whether California courts will continue to recognize this doctrine and, if so, how it should be applied. Some commentators view the inevitable disclosure doctrine as a boon to the ability of businesses to protect confidential information.[289] It aids the trade secret owner to proactively protect its confidential information before the information is disclosed.[290] However, opponents assert that the doctrine's harmful effects, particularly restricting employees from freely changing jobs, outweighs its value.[291] Opponents cite studies of the business history of California's Silicon Valley that tie the technological and economic success of this region to California's strong policy of protecting an employee's right to change jobs.[292] Therefore, any doctrine inhibiting the continuation of employee movement may have undesirable effects.[293]

To answer the question of whether California courts should apply the doctrine in trade secret misappropriation actions requires first understanding the scope and purpose of the inevitable disclosure doctrine. Once the doctrine's scope and purpose and placed in context, the doctrine must be compared to the CTSA as presently enforced to determine, at least analytically, if it is compatible with California law. Finally, the concerns regarding its implementation must be addressed to determine whether they justify abandoning it.

IV. ANALYSIS

A. *The Function of the Inevitable Disclosure Doctrine*

The debate over the inevitable disclosure doctrine has largely overlooked the doctrine itself and focused solely on its effect.[294] This is most likely attributable to the *PepsiCo*

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289. *Electro Optical Indus.*, 90 Cal. Rptr. 2d at 686.

290. *See* McMahon et al., *supra* note 15, at C35.

291. *See* Susan Street Whaley, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809 (1999); *see also* Matheson, *supra* note 17.

292. *See* SAXENIAN, *supra* note 92, at 25.

293. *See* Whaley, *supra* note 291.

294. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

court's definition of the doctrine. The *PepsiCo* court stated that the inevitable disclosure doctrine "permits a former employer to enjoin an employee from working for a direct competitor where the new employment will lead [the employee] to rely on the [former employer's] trade secrets."[295] Thus, a business's ability to obtain an injunction effectively "transforms employee access to trade secrets into a de facto noncompetition agreement."[296]

However, looking at the doctrine's effect confuses its outcome with its application.[297] The CTSA authorizes California courts to issue an injunction if a trade secret owner proves either the "[a]ctual or threatened misappropriation" of its trade secret.[298] Under the CTSA, both an actual and a threatened misappropriation can be proven by showing that a defendant used "improper means" to acquire or attempt to acquire confidential information.[299] The CTSA then defines improper means as any conduct that, although otherwise lawful, is improper under the circumstances.[300] Because a misappropriation of trade secrets is based on the acquiring party's use of improper means in obtaining the confidential information, requiring that a trade secret owner prove a misappropriation by direct evidence of actual use, or actual possession of a trade secret,[301] seemingly misstates California law.[302]

The inevitable disclosure doctrine is simply a means of analysis in a trade secret misappropriation action.[303] It allows the trade secret owner to present evidence of the defendant's own wrongful conduct to prove that the defendant cannot be trusted to maintain the confidential nature of trade secret information in a subsequent job. In essence, the doctrine functions like a party opponent admission.[304] The doctrine allows a plaintiff to present evidence of the defendant's voluntary acts to refute an express or implied claim that the defendant

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295. Weiss & Lincoln, *Accepting the Inevitable*, *supra* note 11, at S6.
296. Matheson, *supra* note 17 at C35.
297. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.
298. CAL. CIV. CODE § 3426.2(a) (West 1999).
299. *Id.* § 3426.1(b)(1).
300. *See id.* § 3426.1 cmt.; *see* E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970).
301. *See* DiFronzo, *supra* note 207, at 46.
302. *See* Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111, 1119 (N.D. Cal. 1999).
303. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.
304. *See* CAL. EVID. CODE § 1220 (West 1999).

can be trusted to maintain the integrity of the trade secret information.[305] Allowing this type of evidence furthers trade secret law's policy of promoting a standard of commercial morality by holding former employees who act improperly accountable for their actions.[306]

Additionally, the inevitable disclosure doctrine establishes the burden of proof that the trade secret owner must overcome to get an injunction.[307] The trade secret holder must prove the defendant's conduct inevitably leads to the conclusion it would be impossible for the employee not to disclose the former employer's trade secrets in the employee's new job.[308] Viewed in this manner the inevitable disclosure doctrine does not alter the showing for a misappropriation currently required by the courts. The doctrine simply expands the type of evidence a judge may consider in determining if a misappropriation has taken place.

B. *The Inevitable Disclosure Doctrine is Consistent with the California Trade Secret Law*

The inevitable disclosure doctrine adopted by the *Electro Optical* court is not inconsistent with either the current interpretation, or the public policy underlying the CTSA. The inevitable disclosure doctrine does not alter the proof required for a trade secret misappropriation action or the standard to obtain an injunction.[309] It addresses only the type of evidence a trade secret owner may introduce to prove a misappropriation.[310]

1. *Requirements for a Threatened Misappropriation Under the CTSA*

Misappropriation under the CTSA requires a trade secret owner to prove (1) that a trade secret exists, and (2) that it was wrongfully used or disclosed, or that such wrongful use

305. *See* CHARLES T. MCCORMICK ET AL., CASES AND MATERIALS ON EVIDENCE § 801 (7th ed. 1996).

306. *See supra* Part II.C.1.b.

307. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680, 684 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

308. *See id.*

309. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

310. *See id.*

or disclosure is threatened.[311] The inevitable disclosure doctrine relates only to the second requirement of a misappropriation action: the threatened use of a trade secret.[312] In a misappropriation action relying on the inevitable disclosure doctrine, the trade secret owner must still prove the existence of a protectable trade secret plus, the trade secret owner must prove three additional elements. First, the former employee must know of the business's trade secrets as a result of his or her employment.[313] Second, the trade secret owner must show that its former employee is taking a job with a competitor that entails duties sufficiently parallel to his or her former job that it would be almost impossible for the employee not to refer to the former employer's trade secrets.[314] Third, the trade secret owner must show that the former employee cannot be trusted to keep the information confidential in his or her new position.[315]

a. *The Plaintiff Must Possess a Protectable Trade Secret*

To sustain an action for misappropriation, the trade secret holder must first prove the existence of a protectable trade secret.[316] Although the UTSA definition of a trade secret effectively protects all information used in a business,[317] defining a trade secret for a misappropriation action is more difficult.[318] Trade secrets for litigation purposes are, by their nature, not defined by a neutral party like other intellectual property.[319] They are identified in a contested proceeding, between two competing interests and by a judge who has to balance the policy of trade secret law and the interest of the

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311. *See* CAL. CIV. CODE §§ 3426.1–3426.2(a) (West 1999); Bayer Corp. v. Roche Molecular Sys., Inc., 72 F. Supp. 2d 1111 (N.D. Cal. 1999).

312. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995); Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

313. *See* D. Peter Harvey, *"Inevitable" Trade Secret Misappropriation After PepsiCo, Inc. v. Redmond*, *in* LITIGATING COPYRIGHT, TRADEMARK & UNFAIR COMPETITION CASES FOR THE EXPERIENCED PRACTITIONER 1998, at 199, 214 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 537, 1998).

314. *See id.*

315. *See id.*

316. *See supra* Part II.C.1.

317. *See supra* Part II.C.1.a.

318. *See* Pooley, *Property or Confidentiality?*, *supra* note 125, at C24.

319. *See id.*

trade secret owner, against the employee's right to change jobs.[320] Depending on the interest of the parties involved, a judge may require the trade secret owner provide a very specific definition.[321]

In cases where the plaintiff relied on the inevitable disclosure doctrine the court has required a very stringent standard of particularity when defining a trade secret.[322] Unlike an actual misappropriation action in which the defendant has taken specific information, a defendant in an inevitable disclosure action generally retains the former employer's trade secrets only in his or her memory.[323] Because of the amorphous nature of this information, the court must guard against a trade secret owner claiming information properly classified as an employee's general skill and knowledge as the employer's confidential information.[324]

For example, the defendant in *PepsiCo* knew PepsiCo's confidential pricing information for its new line of sports drinks which were going to compete directly with Quaker's sports drinks.[325] This information would allow Quaker to strategically price their products in a competitive market to under-price PepsiCo's.[326] This price information was time-sensitive, and any value would evaporate when PepsiCo launched its new product line.[327] This particularized information identified by PepsiCo showed the court that PepsiCo was only trying to protect its confidential information for a limited period of time and not attempting to prevent Redmond from taking his general skill and knowledge to his new job.[328]

The trade secret owner in *Electro Optical* failed to specifically identify its non-technical trade secrets that therefore

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320. *See id.*

321. *See id. See also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (1993).

322. *See* Pooley, *Property or Confidentiality?*, *supra* note 125, at C24. This flexible standard is supported by language in the California Code of Civil Procedure Section 2019 that uses a reasonableness standard in determining whether trade secrets have been sufficiently identified. *See* CAL. CIV. PRO. CODE § 2019 (West 1999).

323. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1270 (7th Cir. 1995).

324. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION. § 39 cmt. d.

325. *See PepsiCo, Inc.*, 54 F.3d at 1270.

326. *See id.*

327. *See id.*

328. *See id.* at 1269.

precluded such information from protection.[329] EOI identified very broad categories of its non-technical confidential information in an attempt to protect as much information as possible.[330] However, much of the information EOI identified either did not qualify as a trade secret because it was commonly known within the industry, or could not be exploited by SBI.[331] EOI's failure to specifically identify particular trade secret information as PepsiCo did in *PepsiCo* precluded EOI from proving its information was protectable.[332]

b. *The Defendant Must Know the Plaintiff's Trade Secrets*

After the trade secret owner proves the existence of a protectable trade secret under the inevitable disclosure doctrine, the trade secret owner must show that its former employee knows the trade secret information.[333] This requirement actually entails the trade secret owner proving three separate points: (1) that the employee knows the plaintiff's trade secret(s); (2) that the employee has the ability to transfer this information to a competitor in a manner the competitor could make use of it;[334] and (3) that the new employer could use the information.[335]

These three points are consistent with the CTSA.[336] The CTSA does not provide a remedy for every disclosure of trade secret information.[337] It prohibits a disclosure of information only if the disclosure impairs the commercial value of the trade secret information.[338] To allow a broader reading would

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329. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680, 685 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

330. *See id.* at 683.

331. *See id.* at 685; *see also* ECT Int'l, Inc. v Zwerlein, 597 N.W.2d 479 (Wis. Ct. App. 1999) (finding that the plaintiff failed to identify a protectable trade secret when it identified different software components but failed to specify which components were misappropriated).

332. *Electro Optical Indus.*, 90 Cal. Rptr. 2d at 685.

333. *See* Harvey, *supra* note 313, at 214.

334. *See Electro Optical Indus.*, 90 Cal. Rptr. 2d at 680.

335. *See* Gibson-Homans Co. v. Wall-Tite, Inc., No. 92 2750 JGD, 1992 WL 512411, at *5 (C.D. Cal. 1992).

336. *See id.*

337. *See id.*

338. *See id.*

misstate the meaning of the statute[339] and violate California's policy of worker mobility.[340]

This requirement's compatibility with the CTSA is further demonstrated by comparing the analyses in *PepsiCo* and *Electro Optical*. In *PepsiCo*, the defendant was the general manager of a regional business unit of PepsiCo.[341] The defendant knew the pricing information for PepsiCo's new product line, had the training to transfer this information to Quaker, and Quaker could use this information to set its prices in markets where it competed with PespiCo.[342] By contrast, in *Electro Optical*, EOI claimed White's new job at SBI threatened its technical trade secrets.[343] EOI believed White would pass on information regarding "existing and future product designs, production methods, materials and processes, and the status of EOI's patent applications."[344] However, the court found that unlike Redmond, White (who was a sales manager) lacked the technical training to transfer the information to SBI, or that SBI could use the information if it could be transferred.[345] Thus, unlike a traditional misappropriation action where the trade secret owner can prove the defendant knew and could transfer the confidential information by showing the defendant actually possessed the trade secret information by documentary evidence, under the inevitable disclosure doctrine the trade secret owner must still make the same showing without benefit of such direct evidence. This requirement sets a high bar for the trade secret owner to meet, remaining consistent with the CTSA.

c. *The Defendant Must Be Taking a Job So Similar He or She Would Be Forced to Rely on the Trade Secret*

The inevitable disclosure doctrine also requires the trade secret owner to prove the former employee is taking a job with a competitor that is so similar to the employee's present

339. *See id.*
340. *See* Continental Car-Na-Var Corp. v. Moseley, 148 P.2d 9 (Cal. 1944).
341. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1263 (7th Cir. 1995).
342. *See id.*
343. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680, 685 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).
344. *Id.* at 683.
345. *See id.* at 685.

job that the employee will be forced to rely on the former employer's trade secrets.[346] This requirement embodies the conclusion that some situations present "[t]he virtual impossibility of [the employee] performing all of his prospective duties for [the new employer] to the best of his ability, without in effect giving it the benefit of [the plaintiff's] confidential information."[347] These situations make the issuance of an injunction against disclosure and use of this information inadequate.[348]

This requirement is also consistent with the CTSA. It follows and expands California's requirement that the new employer have the capability to exploit the former employer's trade secret information.[349] The trade secret owner must show not just that the new employer can use the trade secret information, but also the new employer's method of operation is so analogous that the employee *cannot avoid* using the trade secret information.[350]

The *PepsiCo* court illustrated just how similar the former and new jobs must be for the inevitable disclosure doctrine to apply. While Redmond worked for PepsiCo, part of his job entailed overseeing the operation of a new million-dollar product delivery system PepsiCo was testing in California.[351] Redmond's primary responsibility at Quaker would be to establish a new product delivery system for Quaker's products.[352] Contrary to Quaker's assertions that Redmond would be simply implementing a delivery system from a pre-existing plan, the court found that Redmond would have a substantial role in both its design and development.[353]

That this requirement is in accord with the CTSA is illustrated by contrasting *PepsiCo* with another California case, *Gibson-Homans Co. v. Wall-Tite, Inc.*[354] In *Gibson-Homans*,

346. *See PepsiCo*, 54 F.3d at 1270.
347. Air Prod & Chems., Inc. v. Johnson, 442 A.2d 1114, 1124 (Pa. Super. Ct. 1982).
348. *See id.*
349. *See supra* Part II.D.
350. *See* Gibson-Homans Co. v. Wall-Tite, Inc., No. 92-2750-JGD, 1992 WL 512411, at *5 (C.D. Cal. Oct. 27, 1992).
351. *See PepsiCo*, 54 F.3d at 1266.
352. *See id.*
353. *See id.*
354. *Gibson-Homans*, 1992 WL 512411, at *1. Although *Gibson-Homans* involved an actual misappropriation of trade secrets, it is still valuable for comparison purposes.

the trade secret owner and the allegedly infringing company both directly competed in the adhesive market.[355] The allegedly infringing company, Wall-Tite, was founded by a former Gibson-Homans employee who created many of the adhesive compounds Gibson-Homans sold.[356] When Wall-Tite was started, the Gibson-Homans employee took a written copy of the formulas for these adhesive compounds with him.[357] However, even though the employee's position with Gibson-Homans and his position with Wall-Tite were seemingly identical, the court concluded that he had not misappropriated these trade secrets because of the differences in the two companies' operations.[358] Gibson-Homans actually manufactured the adhesives it sold while Wall-Tite simply re-branded bulk adhesives it purchased from outside suppliers.[359] There was no evidence Wall-Tite's current method of operation, nor any future plan of operation, would bring the two companies' operations into conflict.[360] Again, this requirement that the former employer's and new employer's method of operation be substantially similar to effectuate a transfer of the confidential information required by the inevitable disclosure doctrine protects the balance between the former employer and the former employee that the CTSA attempts to reach.

d. *The Former Employee Cannot Be Trusted to Keep the Information Confidential*

The final requirement that a trade secret owner must prove in order to use the inevitable disclosure doctrine is that the former employee cannot be trusted to keep the information confidential.[361] The doctrine requires a trade secret owner to present instances of the former employee's and/or a new employer's improper conduct to demonstrate that they cannot be trusted to maintain the integrity of a former employer's trade secrets.[362] The CTSA adopted the improper means standard as one of the ways a trade secret owner can

355. *See id.*
356. *See id.*
357. *See id.*
358. *See id.* at *5.
359. *See id.* at *2.
360. *See Gibson-Homans*, 1992 WL 512411, at *5.
361. *See* Harvey, *supra* note 313, at 214.
362. PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1270 (7th Cir. 1995).

prove a misappropriation of its confidential information.[363] The standard states that a misappropriation of trade secrets may be shown by conduct that is improper under the circumstances, although otherwise legal.[364] This standard is consistent with California courts' traditional practice of enjoining a party's actions if they amount to unfair competition.[365]

The *PepsiCo* court showed that isolated instances of questionable conduct on the part of a former empolyee might not suffice. The court found Redmond lied to his superiors and colleagues at PepsiCo on multiple occasions during the entire time he was being courted by Quaker.[366] Additionally, officials at Quaker also demonstrated a significant lack of candor during this process.[367] It was this repeated pattern of questionable actions on the part of both defendants that led the court to conclude that "[e]ven if Redmond could somehow refrain from relying on this information, as he promised he would, his action in leaving [PepsiCo], [Quaker's] actions in hiring Redmond, and the varying testimony regarding Redmond's new responsibilities, made Redmond's assurances to PepsiCo less than comforting."[368] Enjoining the activities of a defendant that itself calls into doubt its ability to be trusted with sensitive information is consistent with the CTSA.

2. *The Inevitable Disclosure Doctrine Does Not Violate California's Public Policy of Employee Mobility*

The inevitable disclosure doctrine does not violate California's strong public policy of relatively unrestricted worker mobility.[369] The California Supreme Court has characterized the right of individuals to pursue any calling, business, or profession a "property right" that equity should protect to the fullest extent possible.[370] This is reflected in section 16600 of the California Business and Professions Code.[371] Section 16600 prohibits agreements restraining an employee's free-

363. *See* CAL. CIV. CODE § 3426.1 cmt. (West 1999).
364. *See id.*; *see also supra* Part II.C.2.
365. *See* Scott v. Snelling & Snelling, Inc., 732 F. Supp. 1034, 1043 (N.D. Cal. 1990).
366. *See PepsiCo*, 54 F.3d at 1264.
367. *See id.* at 1270–71.
368. *Id.* at 1267.
369. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.
370. *See* Continental Car-Na-Var Corp. v. Moseley, 148 P.2d 9 (Cal. 1944).
371. *See* CAL. BUS. & PROF. CODE § 16600 (West 1999).

dom to change jobs because such restrictions fail to deliver any corresponding benefit to the employee or to the public.[372] However, section 16600 has never been held a per se exclusion on all agreements or judicial orders that limit an employee from taking a subsequent job.[373]

An employee's right to change jobs has always been limited by the notion of unfair competition.[374] For example, courts have prevented employees from using or disclosing the employer's trade secrets both during and after their relationship.[375] Restricting an employee from specifically defined activities may be enforceable if the restriction does not bar the employee from practicing an entire profession, trade, or business.[376] Additionally, California prohibits a former employee from soliciting coworkers, or customers of the former employer.[377]

Section 16600 allows a court in a trade secret misappropriation proceeding based on the inevitable disclosure doctrine to protect California's overarching policy of worker mobility while not undermining the purpose of trade secret law.[378] It allows the judge to presume an employee will be harmed if the former employer obtains an injunction. This presumption effectively sets the threshold the trade secret holder must overcome. The court must still consider all the facts and circumstances surrounding the alleged threatened misappropriation and balance the competing harms when determining if an injunction is proper.[379] Only if a court finds

372. *See* Schmidt v. Foundation Health, 42 Cal. Rptr. 2d 172 (Ct. App. 1995).

373. *See* Scott v. Snelling & Snelling, Inc., 732 F. Supp. 1034 (N.D. Cal. 1990).

374. *See* American Credit Indem. Co. v. Sacks, 262 Cal. Rptr. 92, 98–99 (Ct. App. 1989).

375. *See* Morlife, Inc. v. Perry, 66 Cal. Rptr. 2d 731 (Ct. App. 1997) (enjoining two former employees from (1) doing business with any company that switched its business to the employees' new business as a result of the employees' use of the former employer's trade secret information, and (2) soliciting any business from any entity that did business with the former employer before the employees stopped working there).

376. *See* General Commercial Packaging, Inc. v. TPS Packaging Eng'g, Inc., 114 F.3d 888 (9th Cir. 1997); Kolling v. Dow Jones & Co. Inc., 187 Cal. Rptr. 797 (Ct. App. 1982).

377. *See American Credit Indem. Co.*, 262 Cal. Rptr. at 98; Loral Corp. v. Moyes, 219 Cal. Rptr. 836 (Ct. App. 1985).

378. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

379. *See* Robinson v. Jardine Ins. Brokers Int'l Ltd., 856 F. Supp. 554 (N.D. Cal. 1994)

both that the former employee acted improperly and engaged in activities constituting unfair competition, and that on balance the employer will suffer the greater harm, will a court issue an injunction.[380]

In practice, the inevitable disclosure doctrine functions as a means of proving a recognized exception to section 16600.[381] It allows a trade secret owner to show that the former employee will inevitably engage in improper acts amounting to unfair competition. It does not lower the requirements for proving a misappropriation, or lower the burden the trade secret owner must overcome. Thus, the inevitable disclosure doctrine is not inconsistent with the public policy favoring relatively unrestricted employee mobility.

V. PROPOSAL

As long as businesses rely on confidential information to maintain competitive positions relative to their competitors, the competitors will seek ways to gain access to this information. The inevitable disclosure doctrine provides an effective tool for California courts to use to ensure that a business's corner cutting does not cross over into realm of unfair competition. The doctrine follows trade secret law's historical trend of changing and adapting to the modern business environment to make sure the standards of commercial ethics are effectively enforced.[382] Further, it allows the owner of trade secret information to prevent its unauthorized disclosure while still protecting the rights of the employee to market his or her skills. The balancing of these interests are central to California's trade secret law.

While California's Second District Court of Appeal in *Electro Optical* has been de-published, the decisions was inadequate to quell the debate over the inevitable disclosure doctrine had it stood. The *Electro Optical* court failed to identify exactly what California courts will require before issuing an injunction under the inevitable disclosure doctrine.[383] This

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380. *See* Alaska v. Native Village of Venetie, 856 F.2d 1384, 1388 (9th Cir. 1988).

381. *See supra* Part II.E.

382. *See supra* Part II.A.

383. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

court dealt only with the denial of an injunction based on failure of the trade secret owner to specifically identify its confidential information and to demonstrate that any confidential information was sufficiently threatened to warrant the injunction.[384] Courts will certainly be confronted with this issue again.[385] Future appellate decisions should clearly delineate the requirements for a threatened misappropriation, be it adopting the *PepsiCo* test in its entirety, or altering it specifically for California. California courts should follow the *Electro Optical* court's lead by approving the inevitable disclosure doctrine and further the effectiveness of trade secret law by providing a clear test for both businesses and employees to follow.[386]

VI. CONCLUSION

The inevitable disclosure doctrine, as discussed by the *Electro Optical* court, is compatible with current California Law. As one commentator stated:

> The inevitable disclosure doctrine does not offer relief merely because an employee joins a competitor. It does not stand for the proposition, and should not be used to advocate that an employee can be prevented from joining a competitor simply because the employee will be working in similar capacity for his or her new employer.[387]

The doctrine's application is limited to situations where former employees themselves have shown they cannot be trusted[388] and then only when it is inevitable they will engage in conduct amounting to unfair competition.[389] In the end, the doctrine merely incorporates the notion that people's actions speak louder than their words into trade secret law. Further it moves California closer to meeting its obligation to enforce the CTSA consistently with other states' trade secret laws.[390]

Prior to the adoption of the inevitable disclosure doctrine a trade secret owner, such as AMD, were severely hampered

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384. *See id.*
385. *See* Weiss & Lincoln, *Accepting the Inevitable*, *supra* note 11, at S6.
386. *See* CAL. CIV. CODE § 3426.8 (West 1999).
387. Michael R. Levinson and Timothy J. Gerend, *New US Doctrine Aids in Trade Secrets*, INTELLECTUAL PROPERTY CENTER (JULY/AUG. 1998).
388. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.
389. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39 cmt. a (1993).
390. *See* CAL. CIV. CODE § 3426.8 (West 1999).

in proving a misappropriation.[391] AMD was unable to prove an actual misappropriation of its trade secrets even though the facts surrounding their employees departures raised questions about the proprietary of Hyundai's actions. But the consequences of a misappropriation for companies in AMD's situation are the same whether the misappropriation occurred as the result of an actual theft or an unconscious use.[392] At best, the trade secret owner can recover the information, suffering only the diminution of value for the time it was used by a competitor.[393] At worst, the trade secret can be lost forever, since once the information is disclosed "like gas released from a container, the secret disperses immediately into the 'public domain,' from which it cannot be recalled."[394] Such strict consequences, regardless of the attendant circumstances, make the use of circumstantial evidence to prove a misappropriation the more reasoned interpretation of trade secret law.[395]

AMD was able to prove that its trade secrets were threatened and obtained an injunction by relying on the inevitable disclosure doctrine.[396] However, California's move toward adopting the doctrine does not mean the floodgates will be opened to this type of claim in the future.[397] Section 16600 of the California Business and Profession Code and California's policy favoring worker mobility will both work together to limit the application of the inevitable disclosure doctrine.[398] The doctrine will not prevent companies like Hyundai from spending "whatever they have to in order to win in [a] business."[399] The inevitable disclosure doctrine simply prevents companies from improperly free-riding on the efforts of others.

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391. *See supra* Part II.C.2.

392. *See* James Pooley, *Is Nothing Secret*, THE RECORDER (1996).

393. *See id.*

394. *Id.*

395. *See* Electro Optical Indus., Inc. v. White, 90 Cal. Rptr. 2d 680, 684 (Ct. App. 1999), *ordered not to be officially published by* Electro Optical Indus., Inc. v. White, 2000 Cal. LEXIS 3536 (Apr. 12, 2000).

396. *See* Viscounty &. Zahn, *supra* note 235.

397. *See* Pooley, *The Sky is Not Falling*, *supra* note 6, at S31.

398. *See id.*

399. Cataldo, *Hyundai Maps Flash Entry*, *supra* note 223.