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## Inevitable Disclosure Through an Internet Lens: Is the Doctrine's Demise Truly Inevitable?

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# **NOTES**

## **INEVITABLE DISCLOSURE THROUGH AN INTERNET LENS: IS THE DOCTRINE'S DEMISE TRULY INEVITABLE?**

### **INTRODUCTION**

Modern trade secret law is, at a very basic level, a study in balance. At its core lies the onerous task of assuring that vital business information remains confidential, while simultaneously preventing the strong public policy of employee mobility from growing dangerously close to extinction. Nowhere is this conflicting dichotomy more evident than in the enigmatic doctrine of “inevitable disclosure.” This judicially crafted doctrine prevents a departing employee with knowledge of secret company information from finding similar employment elsewhere, under the theory that such employment would “inevitably” lead to the disclosure of his former employer’s trade secrets. Application of the doctrine—which varies greatly from state to state—often manifests itself in one of two ways: (1) An equitable tool used to interpret the reasonableness and validity of non-compete clauses in employment contracts; and (2) A means of preventing an employee from accepting similar employment in the same field, even in the absence of a covenant not to compete.

In the specific context of the Internet industry, this Note focuses on the latter of these two inevitable disclosure formulations, and argues that, if restrictively applied, the doctrine remains viable as an equitable tool in the law of trade secrets. Part I gives a brief history of trade secret law in the United States, discussing the elements of trade secrets generally and illustrating policy

considerations that underlie the body of law as a whole. Part II discusses the inevitable disclosure doctrine generally, provides an in-depth look at the modern-day conception of inevitable disclosure as the Seventh Circuit Court of Appeals enunciated in *PepsiCo, Inc. v. Redmond*,<sup>1</sup> and examines the abundance of scholarly criticisms of the doctrine. Part III looks at inevitable disclosure in the context of the Internet industry, investigates industry-specific applications of the doctrine, and provides a proposal for applying the inevitable disclosure doctrine within the ambit of the Internet field. Finally, this Note concludes that the doctrine is workable, if applied in a very specific manner.

## I. GENERAL PRINCIPLES OF TRADE SECRET PROTECTION

### A. *The Evolution of Trade Secret Law*

The origins of trade secret law can be traced back as far as the early nineteenth century, when English industrialists became increasingly concerned with the misdeeds of their employees in various business contexts—misdeeds which resulted in the disclosure of vital information intentionally shielded from the public.<sup>2</sup> Using English decisions as the framework for their own trade secret jurisprudence, American courts began to recognize the profound importance of safeguarding such information as early as 1837,<sup>3</sup> thus beginning the steady and deliberate common law evolution of trade secret protection.<sup>4</sup>

The American Law Institute's publication of the Restatement (First) of Torts crystallized American trade secret law into a single, comprehensive set of guidelines in 1939.<sup>5</sup> Section 757 of the

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1. 54 F.3d 1262 (7th Cir. 1995).

2. See Benjamin A. Emmert, Comment, *Keeping Confidence with Former Employees: California Courts Apply the Inevitable Disclosure Doctrine to California Trade Secret Law*, 40 SANTA CLARA L. REV. 1171, 1174 (2000) (explaining the scope of trade secret law in nineteenth-century England).

3. See *Vickery v. Welch*, 36 Mass. (19 Pick.) 523 (1837) (dealing with information for a "secret manner of making chocolate").

4. See David Lincicum, Note, *Inevitable Conflict?: California's Policy of Worker Mobility and the Doctrine of "Inevitable Disclosure"*, 75 S. CAL. L. REV. 1257, 1259 (2002) (noting that state courts initially developed a diverse body of trade secret law).

5. Emmert, *supra* note 2, at 1176.

Restatement and its accompanying comments attempted to synthesize the amalgam of trade secret case law by offering a general definition of what constituted a trade secret,<sup>6</sup> explaining the level of secrecy required to qualify for trade secret protection,<sup>7</sup> determining in which situations the receipt of classified information could be viewed as an impropriety,<sup>8</sup> and suggesting remedies for trade secret misappropriation.<sup>9</sup> Though lauded for the degree of uniformity it injected into the structure of trade secret law, the First Restatement was unable to effect a truly comprehensive model on which courts could confidently rely for guidance in the modern business world; specifically, it neglected to give protection to information whose value was short-lived, it provided a definition of a trade secret that lacked the substance necessary to aid the legal community, and it created a shroud of ambiguity that resulted in widely disparate holdings in misappropriation cases.<sup>10</sup>

In response to the confusion born from the failings of the First Restatement, the National Conference of Commissioners on Uniform State Law in 1979 passed the Uniform Trade Secrets Act (UTSA), an archetypal trade secret statute created to fill in the holes that Section 757 created. Since its passage, forty-three states nationwide (and the District of Columbia) have adopted the UTSA in various forms,<sup>11</sup> and lawmakers and judges alike view the UTSA as the prevailing authority in the field.

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

7. See *id.*

8. See *id.* at cmt. g.

9. See *id.* at cmt. e.

10. See Emmert, *supra* note 2, at 1176-77. Despite these shortcomings and the advent of more modern statutes, however, the First Restatement still occupies an important role in trade secret law today. *Id.* at 1176.

11. MELVIN F. JAGER, TRADE SECRETS LAW § 3.29 (2003). Only seven states have not adopted the UTSA: Massachusetts, New Jersey, New York, Pennsylvania, Tennessee, Texas, and Wyoming.

## *B. Trade Secret Law Under the UTSA*

### *1. Establishing the Existence of a Trade Secret*

The first step involved in acquiring trade secret protection under the UTSA is establishing that such a secret exists. A logical approach, then, is to look at the UTSA's definition of a trade secret, a definition that evinces a higher degree of objectivity and expansiveness than the one the First Restatement supplied. As the UTSA defines:

"Trade secret" means 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.<sup>12</sup>

A careful reading of this definition suggests three main criteria that must be met before information can be termed a trade secret under the UTSA.<sup>13</sup> First, the information must have some *economic value*, giving its holder a tangible business benefit.<sup>14</sup> Its character must be important enough such that a competitor "would materially benefit from knowing the information and would have to spend time and money to create the same information independently."<sup>15</sup> Second, the information must be *incapable of being easily discovered by lawful means*.<sup>16</sup> In other words, if a competitor can simply look at a publicly accessible company product

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12. UNIF. TRADE SECRETS ACT § 1(4) (1996). Cf. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (defining trade secret as "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").

13. See John H. Matheson, *Employee Beware: the Irreparable Damage of the Inevitable Disclosure Doctrine*, 10 LOY. CONSUMER L. REV. 145, 148-49 (1998).

14. *Id.* at 148.

15. *Id.*

16. *Id.*

and understand the information sought to be protected, such information is not a trade secret, and any publication of the information would necessarily eliminate its secret classification.<sup>17</sup> Finally, the company seeking to protect the information must take *reasonable steps to assure its secrecy*.<sup>18</sup> This objective requirement does not require that the owner of confidential information have exclusive knowledge of the secret; employees and other important individuals may have access to the information without undoing its protected status as a secret.<sup>19</sup> Rather, if a company employs a legitimate secrecy policy and makes reasonable efforts actually to enforce the policy, then it has satisfied the secrecy requirement of the UTSA—"[o]nly reasonable efforts, not all conceivable efforts, are required."<sup>20</sup>

The UTSA thus provides a more concrete standard through which the trade secret status of business information can be judged. More importantly in terms of its overall impact, however, is its relevance in the area of trade secret misappropriation.

## 2. Trade Secret Misappropriation

Once a trade secret is in play, the dispositive question becomes whether misappropriation has occurred. Under the UTSA, a trade secret is misappropriated if it is (1) acquired by "improper means," or (2) disclosed or used by an individual who either used improper means to acquire it or knew that he was under a duty to protect its secrecy.<sup>21</sup> Misappropriation occurs in one of three ways: acquisition

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17. *Id.*

18. *Id.* at 148-49.

19. *Id.* Courts have recognized many factors as evidence of reasonable secrecy precautions. See *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 664 (4th Cir. 1993) (stating that plaintiff's licensing of computer programming code to only two recipients, coupled with its complex system of passwords designed to prevent unauthorized access to the software, constituted "reasonable precautions" to keep the information secret); *Surgidev Corp. v. Eye Tech., Inc.*, 648 F. Supp. 661, 692-94 (D. Minn. 1986), *aff'd*, 828 F.2d 452 (8th Cir. 1987) (holding that plaintiff took reasonable measures to protect its monofilament process by forcing its employees to sign secrecy agreements, restricting access to sensitive areas of its production facility, separating confidential departments from its main research area, keeping confidential documents in locked files, and providing secret materials only to those employees who had a special need for the information).

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

21. UNIF. TRADE SECRETS ACT § 1(2) (1996).

by improper means, breach of a duty of confidentiality, or unlawful use of a competitor's trade secret.<sup>22</sup>

Many actions fall under the umbrella of "improper means," including "theft, bribery, misrepresentation [and] espionage through electronic or other means."<sup>23</sup> The prototypical example of such an improper means scenario took place in *E.I. duPont deNemours & Co. v. Christopher*,<sup>24</sup> a Fifth Circuit Court of Appeals decision that held that photographs of the plaintiff's unfinished production facility taken by defendant's airplane—done for the unitary purpose of gaining the plaintiff's trade secrets—constituted an improper acquisition of trade secrets, even though the defendant's actions were lawful.<sup>25</sup> Thus, to be guilty of misappropriation of trade secrets through improper means, one's actions need not be *illegal*, but simply contrary to accepted norms of business conduct.

A more typical example of trade secret misappropriation involves a breach of a duty of confidentiality, where a party lawfully acquires information, but is under a duty not to disclose.<sup>26</sup> This occurs most often in the context of an employer-employee relationship, typically involving a duty that—because of non-disclosure clauses in the employee's contract—lasts beyond the life of the employment relationship.<sup>27</sup> Again, it is not necessary that the employee gain physical control of the document that details the trade secret; he merely needs to improperly use knowledge that he gained from his former employer to be guilty of misappropriation.<sup>28</sup>

Improper "use" of a trade secret, the third general way in which misappropriation occurs, is commonly found in an organization that

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22. See Lincicum, *supra* note 4, at 1259.

23. UNIF. TRADE SECRETS ACT § 1(1) (1996).

24. 431 F.2d 1012 (5th Cir. 1970).

25. *Id.* at 1015-17. Courts have also found improper means to exist in other general contexts. See *Schulenburg v. Signatrol, Inc.*, 212 N.E.2d 865, 869 (Ill. 1965) (stating that the memorization of confidential information constitutes misappropriation, and that an "employee may not take with him confidential particularized plans or processes developed by his employer and disclosed to him while the employer-employee relationship exists ... and which give the employer advantage over his competitors"); *Tennant Co. v. Advance Mach. Co.*, 355 N.W.2d 720, 726 (Minn. Ct. App. 1984) (noting the existence of unlawful behavior where defendant rummaged through plaintiff's trash).

26. See Lincicum, *supra* note 4, at 1259.

27. See *id.* at 1259-60.

28. See *Stampede Tool Warehouse, Inc. v. May*, 651 N.E.2d 209, 217 (Ill. App. Ct. 1995) (finding memorization of a customer list to be misappropriation).

hires a competitor's employee who has left his former employer with a valuable trade secret at his disposal. The steps a company takes after the discovery of such information are what may constitute improper use. Obviously, making exact duplicates of the products or processes the secret describes constitutes improper use, but the scope of the rule extends well beyond that action alone.<sup>29</sup> Slightly modifying a rival's trade secret<sup>30</sup> or even using the general principles set forth in the trade secret to produce a novel product<sup>31</sup> would each fall under the auspices of trade secret "use," and would dictate a finding of misappropriation.

### 3. Remedies Under the UTSA

Remedies under the UTSA are generally confined to injunctions prohibiting future disclosure and/or use of the trade secret, which can be issued for either "[a]ctual or threatened misappropriation."<sup>32</sup> Such injunctions often terminate when the trade secret has lost its veil of secrecy, but "may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation."<sup>33</sup> The underlying principle of injunctive relief under the UTSA, therefore, is that one may be enjoined from misappropriating another's trade secret only so long as is absolutely necessary. Once a trade secret becomes part of the public domain through general knowledge, or

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29. See Matheson, *supra* note 13, at 150.

30. See *Avery Dennison Corp. v. Four Pillars Enter. Co.*, Nos. 00-4020, 00-4128, 00-4233, 2002 U.S. App. LEXIS 18370, at \*\*19-20 (6th Cir. Sept. 3, 2002) ("[Plaintiff] presented relevant and admissible evidence showing that [defendant] valued, deciphered, modified, and used [plaintiffs] trade secrets; it was not required to do more."); *Pioneer Hi-Bred Int'l v. Holden Found. Seeds, Inc.*, 35 F.3d 1226, 1239 (8th Cir. 1994) ("[T]he fact that [the defendant] may have altered [the plaintiffs] secret does not insulate it from liability.").

31. See *Salsbury Labs., Inc. v. Merieux Labs., Inc.*, 908 F.2d 706, 713 (11th Cir. 1990) (holding that because defendant's employees used the "same compounds and steps in the same order" as they had used while employed by plaintiff, defendant's vaccine production process was "substantially derived" from plaintiff's process and thus constituted misappropriation of plaintiff's property).

32. UNIF. TRADE SECRETS ACT § 2(a) (1996). The "threatened misappropriation" verbiage is how the inevitable disclosure doctrine found its way into the ambit of trade secret law. See *infra* Part II.A.

33. UNIF. TRADE SECRETS ACT § 2(a) (1996).



can be easily discovered through lawful means,<sup>34</sup> the injunction must terminate.<sup>35</sup>

### *C. Policy Considerations*

A fundamental tension exists in the realm of trade secret law. On one hand, there lies the strong public policy of encouraging innovative business advancement through the protection of essential information.<sup>36</sup> This is in direct contrast to the almost sacred right of an American employee to freely change jobs in an attempt to improve his career standing.<sup>37</sup> The latter of these two policy concerns is one that pervades the landscape of the American conscience—as such, it deserves special consideration and will be discussed briefly.

The doctrine of employment-at-will underlies this freedom of choice theory, holding that in the absence of a lawful limitation, the employer-employee relationship may be terminated at the will of either party.<sup>38</sup> At its foundation, the doctrine is most concerned with protecting the rights of both parties to shape the course of their business or career, whatever the case may be.<sup>39</sup> This, in turn, promotes greater workplace production and economic efficiency by encouraging both employer and employee to strive to satisfy the special needs of the other.<sup>40</sup>

In terms of trade secret jurisprudence, however, the *employee's* rights are of special importance. Preventing restrictions on freedom of job choice is one of the most basic rights that the American

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34. For example, a competitor is perfectly within its right to reverse engineer a publicly offered product in order to determine the "secret" processes that led to its creation. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 (1995) ("Independent discovery and analysis of publicly available products or information are not improper means of acquisition.").

35. UNIF. TRADE SECRETS ACT § 2 cmt. (1996).

36. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1268 (7th Cir. 1995).

37. See *id.*

38. See Matheson, *supra* note 13, at 152.

39. See *id.*

40. See *id.* Under this economically driven doctrine, employees will work harder knowing that they can be let go at the drop of a hat; likewise, employers will offer competitive packages and salaries, knowing that an employee could easily leave and go to a competitor. *Id.* at 152-53.

laborer enjoys.<sup>41</sup> Yet despite its profound significance, the right is far from unimpeachable.<sup>42</sup> Often, either contractual provisions or judicial intervention infringe upon this sacred right.<sup>43</sup>

## II. THE INEVITABLE DISCLOSURE DOCTRINE

### A. Inevitable Disclosure Defined

An accurate definition of the "inevitable disclosure" doctrine describes the doctrine as the union of enforceable non-compete clauses and injunctions for threatened misappropriation of trade secrets, establishing an exceptionally stringent restriction on employee mobility that has been the subject of much criticism since its rebirth in 1995.<sup>44</sup> Not specifically addressed by the UTSA, the doctrine holds that—even in the absence of a non-compete agreement, or the non-existence of an actual trade secret misappropriation—a former employee may be enjoined from accepting employment with a competitor because the nature of his new employment will "inevitably lead him to rely on the [former employer's] trade secrets."<sup>45</sup>

Two striking characteristics of inevitable disclosure warrant additional preliminary discussion. First, it is important to note that inevitable disclosure claims are cloaked under the UTSA cover of "threatened misappropriation," not because the employee *intends* to disclose the trade secret, but because of the inevitability that he will use his personal knowledge of the trade secret in satisfying the requirements of his new job.<sup>46</sup> This seems at odds with the

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41. See U.S. CONST. amend. XIII, § 1 (prohibiting involuntary servitude).

42. See Lawrence I. Weinstein, *Revisiting the Inevitability Doctrine: When Can a Former Employee Who Never Signed a Non-Compete Agreement nor Threatened to Use or Disclose Trade Secrets Be Prohibited from Working for a Competitor?*, 21 AM. J. TRIAL ADVOC. 211, 211 (1997) (stating that both courts and parties to a contract may limit this right).

43. See *id.*

44. See *infra* Part II.B.

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

46. Johanna L. Edelstein, Note, *Intellectual Slavery?: The Doctrine of Inevitable Disclosure of Trade Secrets*, 26 GOLDEN GATE U. L. REV. 717, 718 n.7 (1996) (stating that employee who changes jobs within the same field "may find it impossible to avoid drawing upon the skills and experience she developed at previous jobs").

functional definition of the word "threat,"<sup>47</sup> not only enjoining employees who never expressed any intent to disclose, but also those who even expressly stated that they would *not* disclose their former employer's trade secrets.<sup>48</sup> Second, courts that grant injunctions in inevitable disclosure cases are in essence creating judicially crafted covenants not to compete.<sup>49</sup> This runs contrary to the most fundamental principles of employment and contract law, as a contract term—one extremely harmful to the employee and quite beneficial to the employer—is forced upon the two parties in the absence of a bargained-for-agreement.<sup>50</sup>

## B. PepsiCo, Inc. v. Redmond

### 1. The Case

The modern formulation of the inevitable disclosure doctrine is rooted in the Seventh Circuit's landmark 1995 decision in *PepsiCo, Inc. v. Redmond*. Though previous application of the doctrine was by no means unprecedented,<sup>51</sup> scholars widely credit *PepsiCo* for bringing the doctrine back to the forefront of trade secret law,<sup>52</sup> as it was perhaps the first case in which a court applied the doctrine to an employment relationship lacking a covenant not to compete.<sup>53</sup>

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47. Definitions of "threat" include "a statement or expression of intention to hurt, destroy, punish, etc., as in retaliation or intimidation," WEBSTER'S NEW UNIVERSAL UNABRIDGED DICTIONARY 1901 (2d ed., 1979), and "[a] communicated intent to inflict physical or other harm on any person or on property." BLACK'S LAW DICTIONARY 1327 (5th ed. 1979).

48. *PepsiCo*, 54 F.3d at 1270. In *PepsiCo*, the defendant (Redmond) had actually signed a non-disclosure agreement with his former employer (Pepsi), stating that he would "not ... disclose any trade secrets or confidential information gleaned from his earlier employment." *Id.*

49. See Matheson, *supra* note 13, at 159.

50. See *id.* ("The original employer obtains the benefit of a non-compete restriction without bargaining for it or paying for it.")

51. See, e.g., *AMP Inc. v. Fleischhacker*, 823 F.2d 1199 (7th Cir. 1987); *Teradyne, Inc. v. Clear Communications Corp.*, 707 F. Supp. 353 (N.D. Ill. 1989); *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645 (E.D. Mich. 1966); *E.I. duPont de Nemours & Co. v. Am. Potash & Chem. Corp.*, 200 A.2d 428 (Del. Ch. 1964); *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99 (Ohio Ct. App. 1963). In each of these cases, the court used inevitable disclosure to assess the validity of a non-compete agreement.

52. See Lincicum, *supra* note 4, at 1260.

53. See *PepsiCo*, 54 F.3d at 1262.

Set against the backdrop of "fierce beverage-industry competition" in the sports drink and "new age" drink fields, *PepsiCo* centered around the activities of the defendant William Redmond, a former *PepsiCo* managerial executive who had left to join the Quaker Oats Company in 1994.<sup>54</sup> *PepsiCo* and Quaker were rivals in the two beverage markets, markets largely dominated by Quaker's "Gatorade" and "Snapple" drinks, respectively.<sup>55</sup> Despite Quaker's dominance, *PepsiCo* had plans in place to challenge Quaker's impressive market standing, introducing the sports drink "All Sport" in 1994 and entering the new age drink field through joint ventures with Ocean Spray and Lipton.<sup>56</sup>

Redmond was a high-ranking executive in *PepsiCo*'s North America (PCNA) division, and recently had been promoted to General Manager of a *PepsiCo* business unit that encompassed the entire state of California and had annual revenues of over five hundred million dollars, or approximately one-fifth of PCNA's profit in the United States.<sup>57</sup>

In this high-level capacity, Redmond was privy to a wealth of "inside information and trade secrets" that *PepsiCo* wanted protected.<sup>58</sup> This information included (1) PCNA's "Strategic Plan," a frequently-revised document outlining PCNA's financial and strategic goals for the upcoming three-year period, (2) an "Annual Operating Plan" containing crucial information on how PCNA's products would be priced in the market, (3) general knowledge of "attack plans," detailing high-level strategies for specific markets, and (4) knowledge of special prototypes designed to improve PCNA's selling and delivery systems.<sup>59</sup>

Redmond negotiated with Quaker from May through November 1994, keeping the negotiations secret from his PCNA colleagues throughout the process.<sup>60</sup> On November 8, he accepted a position as Vice President of Field Operations for Quaker's Gatorade division, and quickly informed a PCNA superior that he had received an offer

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54. *Id.* at 1262, 1263-64 (7th Cir. 1995).

55. *Id.* at 1264.

56. *Id.*

57. *Id.*

58. *Id.*

59. *Id.* at 1265-66.

60. *Id.* at 1264.

from Quaker, but had not yet accepted it.<sup>61</sup> He made similar misrepresentations to his other co-workers and superiors in the period that followed, not divulging to PCNA his acceptance of the Quaker offer until November 10.<sup>62</sup>

Shortly thereafter, PepsiCo filed a diversity suit against Redmond that aimed specifically to prevent him from beginning his employment with Quaker.<sup>63</sup> The district court granted this request and issued a preliminary injunction on December 15, 1994, enjoining Redmond from assuming his duties at Quaker for six months, and preventing him from using or disclosing any of PCNA's confidential information of which he had knowledge.<sup>64</sup>

On appeal, the parties presented ample evidence supporting their positions. PepsiCo argued that, by virtue of Redmond's "extensive and intimate knowledge about [its] strategic goals for 1995 in sports drinks and new age drinks," he inevitably would disclose its trade secrets if he assumed his new position with Quaker.<sup>65</sup> They contended that he "cannot help but rely on PCNA trade secrets as he helps plot Gatorade and Snapple's new course," and that his knowledge of such secrets would give Quaker an unfair advantage in the battle for supremacy in the sport drink and new age drink markets.<sup>66</sup>

In response, Redmond and Quaker presented many facts that they believed would counter PepsiCo's assertion of inevitable disclosure. First, they explained that Redmond's chief responsibilities with Quaker would involve the integration of Gatorade and Snapple distribution processes, an implementation effort that would be managed according to a pre-devised plan.<sup>67</sup> This, coupled with the wholly disparate nature of Quaker and PCNA's distribution methods, would render his knowledge of PCNA's confidential strategies irrelevant.<sup>68</sup> Second, the defendants noted that Redmond had signed a confidentiality agreement with Quaker, forbidding him from disclosing any secret information that was the property

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61. *Id.*

62. *Id.*

63. *Id.* at 1265.

64. *Id.* at 1267.

65. *Id.* at 1269.

66. *Id.* at 1270.

67. *Id.* at 1266.

68. *Id.*

of another party.<sup>69</sup> Third, Redmond and Quaker made the express statement at trial that they had no intention of using *any* confidential information Redmond may have gained at PepsiCo, even giving the assurance that—should he ever find himself confronted with a situation that may implicate his knowledge of PepsiCo's trade secrets—he would seek the counsel of Quaker's in-house legal team before proceeding any further.<sup>70</sup>

The Court of Appeals disagreed. Applying the tenets of the Illinois Trade Secrets Act (ITSA),<sup>71</sup> the Seventh Circuit affirmed the trial court's preliminary injunction and effectively prohibited Redmond from assuming his new employment with Quaker. In reaching its holding, the court used the "threatened" misappropriation verbiage of the ITSA as its guide, arguing that the "demonstrated inevitability" that Redmond would rely on his knowledge of PCNA trade secrets in his new capacity constituted a viable "threat" to PepsiCo's confidential information.<sup>72</sup>

Mindful of the importance of protecting a worker's right to pursue a livelihood,<sup>73</sup> the *PepsiCo* court nonetheless established three elements for a successful showing of inevitable disclosure, providing a crystallized paradigm for other courts to follow. First, the new employee must have "extensive and intimate knowledge" of his former employer's trade secrets.<sup>74</sup> In the case at hand, it seemed fairly evident to all involved that Redmond's knowledge of PCNA's trade secrets was substantial. Second, the employee's new position must consist of substantially similar requirements and

69. *Id.* Though not stressed by the defense, Redmond had also signed a non-disclosure agreement with PepsiCo stating that he would "not disclose at any time, to anyone other than officers or employees of [PepsiCo], or make use of, confidential information relating to the business of [PepsiCo] ... obtained while in the employ of [PepsiCo], which shall not be generally known or available to the public or recognized as standard practice." *Id.* at 1264 (alteration in original).

70. *Id.* at 1266, 1270.

71. The ITSA is Illinois' version of the Uniform Trade Secrets Act, and is virtually identical in nearly every respect. See 765 ILL. COMP. STAT. ANN. 1065/1-1065/9 (West 2003).

72. *PepsiCo*, 54 F.3d at 1271.

73. *Id.* at 1268. The court acknowledged the tension that exists in trade secret law, one in which a balance must be struck between upholding "standards of commercial morality" and upholding an employee's right to work where he chooses. It further noted that "[t]his tension is particularly exacerbated when a plaintiff sues to prevent not the actual misappropriation of trade secrets but the mere threat that it will occur." *Id.* (emphasis added).

74. *Id.* at 1269.

responsibilities as the old position.<sup>75</sup> Here, the court felt that the Quaker and PepsiCo jobs were sufficiently alike to satisfy this threshold, noting that Redmond "could not help but rely" on the confidential information he acquired at PepsiCo at his new job with Quaker, primarily because of the similarity of the work.<sup>76</sup> Finally, the court looked at the trustworthiness of the employee as a third factor, specifically whether he could be trusted not to use or disclose the trade secrets.<sup>77</sup> The district court found Redmond's lack of candor and forthrightness to be probative of whether he would honor his confidentiality agreements, and this conclusion considerably colored the Court of Appeals' decision to uphold the injunction.<sup>78</sup>

## 2. Criticisms of PepsiCo

Critics have identified many aspects of the *PepsiCo* decision as particularly discomfoting. Perhaps the most highly criticized aspect was the court's reliance on Redmond's less-than-straight-forward dealings with PepsiCo as a key determinant in its application of the inevitable disclosure doctrine. This reliance is troubling on two fronts. First, it demonstrates an underlying paradox in the overarching structure of the court's reasoning.<sup>79</sup> The court characterized Redmond's disclosure of PepsiCo's trade secrets as an inevitability.<sup>80</sup> By its very definition, "inevitable" implies a happening that is "[i]mpossible to avoid or prevent."<sup>81</sup> It is difficult to understand how evidence of bad faith on Redmond's part impacted something that was bound to happen anyway. This inherent conflict suggests that the court's characterization of trade secret disclosure as "inevitable" is somewhat of a misnomer, and casts serious doubt on the validity of its general rationale. Second, the district court's determination that Redmond's lack of forthrightness with PepsiCo necessarily implied a "willingness to misuse

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75. *Id.*

76. *Id.* at 1270.

77. *Id.*

78. See Lincicum, *supra* note 4, at 1262-63.

79. See *id.* at 1262 ("If there was a 'demonstrated inevitability' that Redmond was going to reveal PCNA trade secrets, why was his lack of candor relevant?").

80. *PepsiCo*, 54 F.3d at 1271.

81. THE AMERICAN HERITAGE DICTIONARY 695 (3d ed. 1997).

PCNA trade secrets<sup>82</sup> carried too much weight in the court's ultimate holding.<sup>83</sup> It is quite uncertain, in fact, whether Redmond exhibited any bad faith at all. The simple fact that he withheld evidence of negotiations with Quaker during the months preceding his acceptance of the Quaker offer is not uncommon in the business world, and may speak more to Redmond's unwillingness to agitate his current employer than to any deliberate misbehavior. Redmond simply may have wanted to keep his options open in the event that negotiations with Quaker deteriorated. Moreover, as the court itself noted, Redmond's exaggerations about the prestige of the position he was considering taking with Quaker—even after his acceptance of the Quaker offer—easily could be considered nothing more than a bargaining ploy, and perfectly within acceptable business standards and mores.<sup>84</sup> How the court, without qualification, could correlate this with an uncompromising willingness to damage his long-time employer is quite unsettling.<sup>85</sup>

Another critique of the *PepsiCo* decision concerns its overly broad scope.<sup>86</sup> Traditionally, courts only applied the inevitable disclosure doctrine in cases involving highly technical industries, where extremely complex formulas and algorithms were the norm.<sup>87</sup> *PepsiCo* expanded the reach of the doctrine to include non-technical industries, prohibiting an employee from switching jobs not to

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82. *PepsiCo*, 54 F.3d at 1270.

83. See Weinstein, *supra* note 42, at 225 (noting how the district court's finding of a correlation between Redmond's dishonest behavior and the likelihood of his use or disclosure of PCNA trade secrets impacted the *PepsiCo* court, and stating that "it is unclear whether the injunction would have been affirmed without such a finding").

84. *PepsiCo*, 54 F.3d at 1271 ("Redmond's ambiguous behavior toward his PepsiCo superiors might have been nothing more than an attempt to gain leverage in employment negotiations.").

85. See Weinstein, *supra* note 42, at 225.

86. See Brandy L. Treadway, Comment, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool*, 55 SMUL. REV. 621, 625 (2002).

87. See, e.g., *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645 (E.D. Mich. 1966); *E.I. duPont de Nemours & Co. v. Am. Potash & Chem. Corp.*, 200 A.2d 428 (Del. Ch. 1964); *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99 (Ohio Ct. App. 1963). Each of these cases adhered to a consistent scenario: Plaintiff had achieved great success in a technical industry, chiefly due to the proliferation of technology that its competitors did not have. As a result, a competitor hired away one of plaintiff's highly skilled employees to narrow the gap between the two companies. See Weinstein, *supra* note 42, at 223 (noting that "notwithstanding the absence of a non-compete agreement, an injunction restraining competitive employment was necessary as a practical matter to protect the former employer's trade secrets").



prevent the disclosure of complicated technical research, but—as was the case in *PepsiCo*—to prevent the disclosure of marketing plans and business strategies, information that conforms to a more uniform set of standards available to all.<sup>88</sup>

Some have argued further that the *PepsiCo* court failed to devote the proper attention to the actual marketing and distribution trade secrets at play in the case.<sup>89</sup> Though brought up by the defense, the court quickly dismissed the fact that PepsiCo and Quaker were direct competitors in the beverage market, and as such employed drastically divergent marketing strategies and distribution methods.<sup>90</sup> Moreover, the fact that Quaker was the unquestioned leader in the industry seems to diminish the value of PepsiCo's business plans in the context of Redmond's employment with Quaker—in other words, it is unlikely that an industry giant, already successful in the market, would be able to use this type of information to make itself more successful.<sup>91</sup> Though it is possible, it is unlikely, not only making a finding of inevitable disclosure dubious, but also bringing into question whether the trade secrets were useful to Quaker *at all*. The court devoted little time to this proposition in its decision.<sup>92</sup>

### C. Criticisms of the Doctrine

Since its rebirth in 1995, the inevitable disclosure doctrine has been the subject of much criticism, reflecting its tenuous hold on its status as a viable legal theory. These criticisms have manifested themselves in many forms, from commentary on how the doctrine has been misapplied to discussions detailing the adverse practical effects brought about by the application of such a doctrine. John Matheson, in a 1998 article, lays out a number of the doctrine's defects, ultimately concluding that—in the absence of an express

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88. See Treadway, *supra* note 86, at 625.

89. See Weinstein, *supra* note 42, at 226.

90. See *id.* (“[W]hile there may be situations where an executive's knowledge of a former employer's marketing-related secrets would *inevitably* be used were the executive to engage in the same activities for a competitor, that is not the norm.”).

91. Weinstein points out that *PepsiCo* simply does not fit into the typical scenario, where the new employer is unsuccessful “precisely because it lacks the trade secret technology that the old employer possesses and which the new hire knew intimately,” and denounces the court for its unfounded dismissal of this argument. *Id.*

92. See *id.*

covenant not to compete—there is no place for inevitable disclosure in the modern business world.<sup>93</sup>

Perhaps the most critical aspect of the inevitable disclosure doctrine is the aforementioned fact that a court's application of the doctrine creates judicially mandated *ex post facto* covenants not to compete. Matheson expands the scope of this critique by explaining that such application results in the unjust revision of not one, but *two* employment agreements.<sup>94</sup> First, the principal amendment occurs in terms of the contract between the employee and her original employer, as an injunction prohibiting the employee from seeking new employment effectively adds a new non-compete provision to the original agreement.<sup>95</sup> Such a rewriting is fundamentally unfair. A non-compete clause represents a tremendous advantage for any employer, and an employee who signs one most certainly would seek additional compensation at the bargaining table. By fashioning a pseudo non-compete clause at the injunction stage, the employer essentially gets something for free, and the employee is stuck with a contract for which he did not bargain. Second, the agreement between the employee and his *new* employer is rewritten as well, as the terms of any prospective contract are essentially negated.<sup>96</sup> With the employee prohibited (at least initially) from assuming the duties of his new employment, the terms of the new contract suddenly do not adequately reflect for what the employer has paid—that is, an employee hired to work in a specific capacity who is not subject to any contractual encumbrances.<sup>97</sup>

Furthermore, Matheson argues that the fundamental unfairness inherent in these contract revisions is not the end of the story—rather, application of the inevitable disclosure doctrine has the additional effect of “creat[ing] significant uncertainty in the labor

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93. Matheson, *supra* note 13, at 160-65.

94. *See id.* at 160.

95. *See id.*

96. *See id.*

97. *See id.* at 160-61. Matheson finds unreasonable a solution that would order the new employer to simply put the employee in a different position within the organization. For an example of this, see *IBM Corp. v. Seagate Tech.*, No. 3-91-630, 1991 U.S. Dist. LEXIS 20406, at \*15 (D. Minn. Dec. 31, 1991) (limiting an employee to an area within new employer's company where disclosure of trade secrets would not be inevitable). Again, this is not what the employer bargained for when it hired the employee. *See* Matheson, *supra* note 13, at 161.

market.<sup>98</sup> This uncertainty is manifested first in the time-sensitive nature of inevitable disclosure jurisprudence generally. An employer that has failed to protect itself through a non-compete clause has an unquestioned incentive to seek a preliminary injunction prohibiting its former employee from assuming his new duties at another company.<sup>99</sup> Though courts grant preliminary injunctions based only on the likelihood of success on the merits of the case,<sup>100</sup> and not on any actual misconduct, a company that successfully enjoins a former employee pending trial essentially gets what it desired. It often takes months to move from the preliminary injunction stage up to and through the completion of the trial—thus, no matter what the outcome, the employee has lost valuable compensation and experience that he could have gained at his new place of employment.<sup>101</sup>

Moreover, new employers mindful of the inevitable disclosure doctrine are faced with the unwelcome realization that a potential employee may be restricted not only by the terms of his former employment contract—itsself a deterrent to hire the worker—but also by the potential for costly litigation that may occur through an inevitable disclosure action by the former employer, a “hidden” cost that employers must take into consideration before hiring the employee.<sup>102</sup> The net result is a market that is faced with the uncertain prospect of expensive litigation, a result that hampers not just the principal parties involved, but the economy as a whole.<sup>103</sup>

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98. Matheson, *supra* note 13, at 161.

99. *Id.*

100. See FED. R. CIV. P. 65; see also *Am. Hosp. Supply Corp. v. Hosp. Prods. Ltd.*, 780 F.2d 589, 593 (7th Cir. 1986) (holding that courts should grant preliminary injunctions if, and only if, “the harm to the plaintiff if the injunction is denied, multiplied by the probability that the denial would be an error ... exceeds the harm to the defendant if the injunction is granted, multiplied by the probability that granting the injunction would be an error”).

101. See Matheson, *supra* note 13, at 161 (“The former employer that has not protected itself in advance has an incentive to seek injunctive relief .... Even if it loses, the former employer has hampered the former employee and the new employer through the cloud of the litigation process.”).

102. See *id.*

103. See *id.* (“Workers lose through lost opportunities, and the economy loses by decreased competition, which can lead ultimately to higher consumer prices in the market.”); see also Edelstein, *supra* note 46, at 719 (“[G]eneral acceptance of the inevitable disclosure theory could have a serious impact on a wide range of industries, stifling the dissemination of general technical knowledge and economic growth.”).

### III. INEVITABLE DISCLOSURE AND THE INTERNET

#### A. Trade Secrets and the Internet

For a variety of reasons, issues surrounding trade secret management, protection, and misappropriation play a heightened role in the context of the Internet industry compared to other business sectors. Chief among these reasons is the ease with which potentially confidential information can be viewed and disseminated via the Internet. This is evident in many contexts, ranging from trade secrets transmitted through e-mail to those posted—either intentionally or unintentionally—on Web pages.<sup>104</sup>

Confidential information posted on the World Wide Web raises interesting trade secret issues unique to the Internet industry,<sup>105</sup> issues that go to the very core of whether the requirements for the mere existence of a trade secret have been satisfied. The key question in such scenarios is whether protection for an otherwise legitimate trade secret is eliminated by its accessibility on the Internet. Accessibility by way of the Internet seems to impinge on the crucial requirements of secrecy that are central to trade secret law—specifically, the necessity that the information itself be incapable of discovery by lawful means, and the condition that the organization wishing to preserve the confidentiality of the material take reasonable steps to maintain its secrecy.<sup>106</sup> Some have argued the alternative, contending that no causal link necessarily exists

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104. See Francis J. Burke, Jr., et al., *Protecting Trade Secrets in a Digital World*, in SIXTH ANNUAL INTERNET LAW INSTITUTE 467, 494-95 (PLI Patents, Copyrights, Trademarks, & Literary Prop. Course, Handbook Series No. G0-00ZE, 2002) (suggesting a variety of safeguards that a technology company should use to protect its confidential information from being sent by employees via e-mail, including: (1) enforcing and reinforcing confidentiality agreements with employees to keep them aware of the critical nature of certain information; (2) requiring vendors to sign confidentiality agreements if necessary; (3) setting up company e-mail policies that allow monitoring of all employee e-mails; and (4) prohibiting the transmission of any company file to an e-mail account outside the organization without managerial approval); see also *People v. Eubanks*, 44 Cal. Rptr. 2d 846, 847-48 (Ct. App. 1995) (dealing with a criminal investigation against a former employee for the alleged theft of trade secrets through e-mail transmissions).

105. See Ian C. Ballon, *Copyright, Digital Entertainment and the Impact of New Technologies: A Primer*, in SIXTH ANNUAL INTERNET LAW INSTITUTE 9, 93 (PLI Patents, Copyrights, Trademarks, & Literary Prop. Course, Handbook Series No. G0-00ZE, 2002) [hereinafter Ballon, *Primer*].

106. See *supra* notes 18-19 and accompanying text.

between information posted on the Internet and the worldwide dissemination of such information.<sup>107</sup> In other words, the fact that the material was—in theory—available to anyone who had Internet access does not imply automatically that it *was*, in fact, accessed.<sup>108</sup> Factors such as the popularity of the Web address and the length of time that the information was posted should play a role in determining whether classification of the information as a secret has been defeated or whether reasonable steps have been taken to assure its secrecy.<sup>109</sup> Recent case law has effected an opposite result, however, as many courts have held that any posting on the Internet *immediately* makes the information widely known—either actually or constructively—and destroys the existence of the trade secret.<sup>110</sup>

## *B. Inevitable Disclosure and the Internet Industry*

### *1. Inevitable Disclosure Factors Unique to the Internet*

Though ease of access and dissemination separates the Internet field from other industries in relation to trade secret law and policy, perhaps the greatest divergence occurs in the context of the inevitable disclosure doctrine. This is the scenario in which an employee leaves one Internet-based company for another and is thought to be in a position to “inevitably disclose” the first company’s trade secrets. Inevitable disclosure is particularly meaningful in the Internet industry because of (1) its dynamic nature, illustrated by the expeditious manner in which new technologies come and go, and (2) its exceedingly broad scope, evident from the

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107. See Ballon, *Primer*, *supra* note 105, at 93.

108. See *id.*

109. See *id.*

110. See *Religious Tech. Ctr. v. Lerma*, 897 F. Supp. 260, 266 (E.D.Va. 1995) (refusing to provide protection to church documents that had “escaped into the public domain and onto the Internet”); *Religious Tech. Ctr. v. F.A.C.T.Net, Inc.*, 901 F. Supp. 1519, 1526 (D. Colo. 1995) (holding that no trade secret protection was available to documents that had entered the public domain, because “portions of the Works have been made available on the Internet ... with the potential for downloading by countless users”); *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231, 1256 (N.D. Cal. 1995) (“While the court is persuaded by the Church’s evidence that those who made the original postings likely gained the information through improper means ... this does not negate the finding that, once posted, the works lost their secrecy.”).

Internet's worldwide accessibility concerning typical business models, such as advertising and marketing strategies.

The Internet field is perhaps the most fast-paced and dynamic industry in the United States.<sup>111</sup> Numerous new technologies are created with unprecedented speed, and companies that do not move quickly often are not around to see the fruits of their labor. As a result, Internet organizations often try to "buy" a competitor's confidential technological acumen by stealing its most important employees and offering them exorbitant compensation.<sup>112</sup> Moreover, it is highly probable that a given Internet technology "may be primarily or exclusively associated with a single employer."<sup>113</sup> In such an environment, it seems clear that applying inevitable disclosure in cases where no non-compete clause exists makes perfect sense and is accomplished easily. The prevalence of such "underhanded" dealings, coupled with the small window of time in which cutting-edge technology is at its maximum value (before it is replaced quickly by a new and improved technology), seems to imply that enjoining an employee from working for a competitor for a short period of time is at least more equitable than it would be in other industries.<sup>114</sup> Put another way, courts may feel more comfortable issuing injunctions for a brief period of time, knowing with a greater degree of certainty that the value of the Internet-technology trade secret will be diminished greatly within a period of months, or even weeks. Though the usual objections to inevitable disclosure still apply in this context, such as creating judicially crafted non-compete clauses and restricting employee mobility,<sup>115</sup>

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111. See, e.g., Jim Chen, *The Authority to Regulate Broadband Internet Access over Cable*, 16 BERKELEY TECH. L.J. 677, 714-15 (2001) (discussing the growth and dynamic nature of the Internet industry, and the FCC's contention that its policy of "unregulation" was the catalyst for such growth).

112. See Ian C. Ballon, *The Internet Applications of the Inevitable Disclosure Doctrine*, in CYBERSPACE LAW. 2 (Feb. 1998) [hereinafter Ballon, *Internet Applications*].

113. See *id.* at 6.

114. See *id.*; see also *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 N.Y. Misc. LEXIS 577, at \*23 (Sup. Ct. Nov. 5, 1997) (determining that a one-year period for an injunction in an Internet-related case was too long because "[g]iven the speed with which the Internet advertising industry apparently changes, defendant's knowledge ... will likely lose value to such a degree that the purpose of a preliminary injunction will have evaporated before the year is up").

115. See *supra* Part II.C.

they seem less powerful when aimed at the Internet industry because of its dynamic and temporal nature.<sup>116</sup>

This accelerated concept of time also plays a role in how courts could apply the inevitable disclosure doctrine to trade secrets that involve Internet-related business models.<sup>117</sup> Because of the fast-paced nature of the industry, many newly conceived companies (and presumably some established ones) do not have a reliable and accurate system of documenting their trade secrets, particularly those that involve business plans.<sup>118</sup> As a result, important assets such as marketing strategies and customer lists often are not given the same level of protection as technological innovations, and thus are rendered useless as trade secrets, making inevitable disclosure claims inconsequential.

Additionally, the all-encompassing scope of the Internet, particularly in relation to business plans, makes application of the doctrine particularly troublesome, especially in the area of fashioning appropriate remedies. The problem lies in the scope of *competition* among Internet companies—competition not confined by geographic and subject matter constraints like many non-Internet businesses. This is best illustrated by way of an example: Suppose employee A is a high-level executive for a major international online sales outlet, company B, in charge of developing Internet-related marketing strategies for the company.<sup>119</sup> The organization sells nearly everything imaginable—books, games, videos, clothes, etc. Employee A has signed a confidentiality agreement, but did not sign a non-compete clause. After departing the

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116. One could also argue that because of the dynamic nature of the industry, companies have an increased responsibility to require new employees to sign non-compete clauses.

117. See Ballon, *Internet Applications*, *supra* note 112, at 4-6 (discussing the concept of "Internet Time" and how it relates to remedies in inevitable disclosure cases).

118. See *id.* Ballon discusses the fact that, because of the hurried pace of Internet time, "many emerging companies do not adequately document their trade secrets," and explains: This is especially true when the secrets constitute business plans, since unlike technology (which may be patentable), the value of marketing and other business information as intellectual property may not be fully appreciated by the owners of rapidly growing companies. In addition, many businesses maintain electronic records, which are frequently updated but not necessarily retained at specific historic moments which would be relevant in litigation.

*Id.* at 4.

119. For our purposes, analogizing company B to an outfit such as Amazon.com is particularly helpful.

company for another online sales organization, *A's* former employer (*B*) sues him, invoking the inevitable disclosure doctrine as *B's* smoking gun in litigation. How would a court deal with such a scenario?

As *PepsiCo* and other courts that have applied the doctrine have enunciated, one of the main requirements for a finding of inevitable disclosure is that the former job and the current job must be substantially similar. In other words, the two organizations must be direct competitors for the doctrine to be relevant.<sup>120</sup> In terms of this Note's example, however, such a requirement is rendered almost meaningless. Employee *A* conceivably could be enjoined from developing marketing strategies for *any* online business that sells *any* product that company *B* sells. Because the breadth of company *B's* sales base is so great, this eliminates a tremendous percentage of the employment available to a person with employee *A's* skills. Given the worldwide geographic scope of the Internet (it is available to anyone, anywhere, and at any time), a court cannot fashion an injunction prohibiting employee *A* from working within a fifty-mile, hundred-mile, statewide, or even nationwide radius of company *B*, as it could in a non-Internet business context. Further, company *B* could argue that a court could prevent employee *A* from doing marketing work for *any* Internet company (not just those that sell the same products as company *B*) because of employee *A's* unique and peculiar knowledge of *Internet-specific* marketing techniques. This, again, eliminates a tremendous segment of the business community for employee *A's* future employment prospects, realistically preventing him from changing jobs, and placing an incredible burden on his right to pursue his own labor. As a result, this "direct competition" component factor that courts consider in determining the validity of an inevitable disclosure claim is unfairly weighted in favor of the employer, making its use as a neutral factor nearly obsolete.

Much as courts improperly weigh the degree of competition factor in favor of the employer in Internet-related disputes, the role of bad faith or misconduct, which often can aid the employee acting in

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120. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269-70 (7th Cir. 1995) (discussing the argument that Redmond could not help but to rely on the knowledge he gained at PepsiCo in performing his new job).



good faith in inevitable disclosure cases, is similarly skewed.<sup>121</sup> In Internet industries, where technology is more likely temporary than permanent, competitors often hire away employees for the unabashedly express purpose of accomplishing projects for which they do not have the appropriate personnel and resources. In doing so, commentators have argued, it is beyond question that the departing employee will rely on his former company's trade secrets, *because that was what he was hired to do*, even though he had signed a confidentiality agreement, and even though he had not exhibited any prior bad faith in his dealings with his former company.<sup>122</sup>

## 2. DoubleClick, Inc. v. Henderson

Much like in other disciplines, there is no clear standard on how to apply the inevitable disclosure doctrine within the ambit of Internet-related industries. One of the more notable examples of a court confronting an Internet industry application of the doctrine that highlights this ambiguity is the New York case *DoubleClick, Inc. v. Henderson*.<sup>123</sup> An in-depth look at the case will help to illustrate the peculiar facets of the Internet that one must consider in a thorough analysis of the doctrine.

In *DoubleClick*, the court granted a preliminary injunction in favor of the plaintiff, an online advertising organization, prohibiting two former company vice-presidents (defendants Dickey and Henderson) from competing with the organization for a period of six

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121. See Ballon, *Internet Applications*, *supra* note 112, at 4 (asserting that employee misconduct should be irrelevant in many Internet-related cases).

122. See *id.* In his discussion of the diminished role of misconduct in Internet inevitable disclosure cases, Ballon notes:

Evidence of some motivation for future disclosure also should be unnecessary in cases involving Internet-related industries where technology is rapidly changing and a new employer, by hiring a particular employee, may in reality be purchasing valuable lead-time to develop a competing product. In such cases, evidence of prior misconduct or a predisposition towards disclosure should not be required if the plaintiff can establish that merely by assuming a competing position the former employee inevitably would use or rely upon plaintiff's trade secrets.

*Id.*

123. No. 116914/97, 1997 N.Y. Misc. LEXIS 577 (Sup. Ct. Nov. 5, 1997).

months.<sup>124</sup> The employment relationship was typical of the kind of inevitable disclosure cases that are the subject of this Note: Both employees had signed confidentiality agreements, and neither—in essence—had entered into any noncompete agreement.<sup>125</sup> Before his departure, one defendant was privy to a wealth of confidential DoubleClick information—the company's 1996 Business Plan, revenue projections, designs on future projects, various pricing and product strategies, and important client lists. The other defendant had knowledge of all of this information, and additionally was exposed to extremely confidential documents distributed only to high-level management.<sup>126</sup> While still employed at DoubleClick, both defendants worked to start their own competing Internet advertising firm, creating a business plan and soliciting both investors and customers.<sup>127</sup>

In granting the injunction, the court's analysis concerning the inevitability of the defendants' disclosure of DoubleClick's trade secrets was based on two key factors.<sup>128</sup> First, the defendants' bad faith—the fact that they blatantly sought to start their own competing online advertising agency while still employed at DoubleClick—quite obviously had an impact on the court's findings.<sup>129</sup> Second, the court stressed the competitive nature of the Internet industry, saying that "[t]here is evidence ... that the Internet advertising business is an extremely competitive one, with a variety of companies using different software and sales techniques to maximize the effectiveness of its clients' advertising."<sup>130</sup> In such an environment, the court reasoned, the defendants' disclosure and use of DoubleClick's trade secrets was inevitable; given "the centrality of [the defendants] in DoubleClick's

124. *Id.* at \*\*23-24.

125. *Id.* at \*\*4-5. One of the defendants entered into a non-compete agreement that the court found inapplicable to the facts of the case. *Id.*

126. *Id.*

127. *Id.* at \*6.

128. *Id.* at \*\*23-24. Though the court's injunction prohibited Dickey and Henderson from running a competing firm for six months, they were not prevented from working in the Internet advertising field, subject to one limitation: "Nothing herein shall be construed to prevent defendants from working for any employer that competes with DoubleClick, so long as defendants' job description(s) or functions with such employer do not include providing advice or information concerning any aspect of advertising on the Internet." *Id.* at \*24.

129. *See id.* at \*17 (discussing the defendants' "cavalier attitude").

130. *Id.* at \*4.

operations," it was "unlikely that they could eradicate [DoubleClick's] secrets from [their] minds."<sup>131</sup>

The court's apparent reliance on the defendants' misconduct in *DoubleClick* seems to be at odds with the arguments set forth above, specifically, the assertion that the role of bad faith and misconduct is diminished in Internet cases.<sup>132</sup> Though it is not contradictory, it does require some qualification. It seems clear after *DoubleClick* that bad faith on the part of *any* defendant in *any* inevitable disclosure case will color a court's decision, at least to some extent. Unlike in other industries, however, one could argue that a *lack* of bad faith has no bearing on a court's finding of inevitable disclosure, given the dynamic nature of the Internet industry and the high rate of employee turnover.<sup>133</sup> It seems likely, then, that even if the defendants in *DoubleClick* had waited until they left DoubleClick before beginning plans to start their own company, the case would have come out the same way.

### *C. Proposal for Inevitable Disclosure Application in the Internet Arena*

Application of the inevitable disclosure doctrine has been met with much criticism in many contexts; this criticism is only heightened in cases where the parties have not entered into a non-compete agreement. In the framework of the Internet industry, such criticism is not diminished by any means.<sup>134</sup> The same issues that plague application of the doctrine in other areas persist in the Internet arena: creating judge-mandated covenants not to compete, effecting great uncertainty in the labor market, and unduly restricting employee mobility, among others.<sup>135</sup> However, because of the dynamic and often fleeting nature of the Internet industry and the critical nature of the confidential information it spawns,

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131. *Id.* at \*16.

132. *See supra* notes 121-22 and accompanying text.

133. *See supra* note 112 and accompanying text.

134. *See, e.g.,* *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310-11 (S.D.N.Y. 1999) (arguing that "in its purest form, the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory" and scrutinizing each of the risks inherent in applying the doctrine).

135. *See supra* Part II.C.

there is a greater need to protect trade secrets in the Internet realm.

This Note argues that in an Internet-related trade secret case, application of the doctrine in the absence of a non-compete agreement *is* necessary, but only in an extremely strict and contrived form—namely, a proposed three fold process that courts should use when deciding when and how to apply inevitable disclosure. First, courts should apply the doctrine narrowly, only in cases that fit a specific factual scenario, one that depends on whether the trade secret is strictly technical or involves more general business information. Second, if such application is warranted, any injunction enjoining an employee from accepting employment elsewhere should be restricted by concrete limits on its duration and scope. Finally, if the court grants an injunction, former employers should be required to compensate the departing employee in light of the harsh restrictions on his ability to pursue his own labor that the injunction causes.

### *1. Narrowly Apply the Doctrine*

Assuming that the plaintiff has established the existence of a trade secret, the first step of this process is to narrowly tailor an application of the doctrine to a very specific combination of facts, limiting the doctrine's purview to cases in which a *highly critical* employee departs from his former organization to work for one of its *direct competitors*. In terms of the Internet industry, the two core terms of this guideline—"highly critical" and "direct competitor"—will be characterized differently, depending on whether the trade secret at issue is one involving a business model, or one involving Internet-specific technical know-how.

If the trade secret itself is a business model, such as marketing plans, advertising strategies, or pricing and product specifications, then "highly critical" is most closely analogous to "highly ranked." In this respect, only high-level managers and supervisors who have the most intimate knowledge of general company business strategies and forecasts should be caught in the doctrine's web. Other employees who are privy to certain confidential business plans would not be affected by the same restriction, and would be free to pursue employment elsewhere without fear of being enjoined by

their former employer because of the “inevitability” of them relying on this knowledge at their new place of employment.<sup>136</sup> Courts must also define narrowly the second requirement—that the new employer be a “direct competitor” of the former one when dealing with Internet trade secrets that are business plans. As discussed earlier, the enhanced scope of Internet sales and services—where business strategies most often come to the forefront—makes many organizations, which otherwise would not be in the same market in other contexts, competitors in the Internet arena.<sup>137</sup> For example, a small chain of bookstores in the Northeastern United States typically would not be considered a direct competitor of a Western department store that happens to sell books. In the Internet medium, however, such organizations hypothetically could be competing for customers, because both companies’ Web sites would be equally accessible to the public at large. This is where the meaning of “direct” must be restricted to include only organizations that offer substantially the same products or services (both quantitatively and qualitatively) and whose consumer markets are similar in geographical scope.<sup>138</sup> Thus, an online bookstore based in and selling chiefly to the Northeastern United States would not be considered a direct competitor of an online bookstore based in and selling chiefly to the Western United States, because at a consumer level, they are in different geographic markets. Courts could ascertain such information rather easily, simply by looking at each organization’s list of customers and determining the predominant area of the country where those customers live. In a case where both companies have a national consumer base, they could still be restricted by the “substantial similarity” requirement. Hence, a national online “department store” such as Amazon.com would not be considered a direct competitor of a national online bookstore such as Barnes&Noble.com. Although they both are the same in terms of consumer geographical scope, their products are quantitatively not the same, even though Amazon.com sells books.

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136. Remember, however, that the trade secret still cannot be disclosed. If the former employer can prove that the employee threatened to disclose the trade secret, then a court may still enjoin the employee.

137. See *supra* notes 119-20 and accompanying text.

138. This has the effect of helping to narrow the scope of the inevitable disclosure doctrine in Internet cases, tremendously reducing the magnitude of the doctrine’s effect.

Through this and the aforementioned limitations, the breadth of the inevitable disclosure doctrine in cases involving trade secrets that are Internet-related business models would be reduced significantly.

Internet trade secrets that involve strictly computer technology require a different approach. In this instance, deciding whether to apply the doctrine necessitates a different formulation of the terms “highly critical” and “direct competitor.” Because Internet technology typically crosses over from industry to industry and enjoys limited field-specific application, the definition of “direct competitor” must be broadened here to include, at least as an initial matter; any two companies that produce or develop similar technology. The labor and expertise that must go into developing new Internet technology, coupled with its excessively temporal nature, require that the quantitative “substantially similar” approach suggested for business models should be discarded in the case of technology. Thus, a large organization that develops technology *X* as one of a myriad of web-development technologies would be considered a direct competitor with a small organization that develops technology *X* only, even though the general view would be that they are not truly competitors in the same market. It is important to remember, however, that the typical trade secret issues that occur in Internet technology cases involve technologies that have not been developed yet.<sup>139</sup> In other words, an employee who brings to a new company preliminary notes and outlines for a cutting-edge Internet technology is being brought over primarily to develop that new technology as quickly as possible; that is, before the former employer fully develops it. Thus, being a “direct competitor” takes on an almost nonexistent role in this instance, the key determinant instead being whether the employee is a “highly critical” one; and even this is best studied through a broader lens. The term “highly critical,” in this instance, must include lesser ranking employees who simply have intimate knowledge of the trade secret technology at issue. This is relevant because, unlike trade secrets that involve business models, the purpose of hiring away an employee essentially is to “steal” the particular technology, rather than to gain an employee’s general business skills. The

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139. See *supra* Part III.B.1.

umbrella of inevitable disclosure application in cases directly involving specific Internet technology is therefore much broader than in those cases involving general business strategies. It is up to the courts to determine which factual scenario is at issue before deciding whether application of the doctrine is warranted.

*2. Set Maximum Limits on the Duration of Injunctions and Limit Their Geographical Scope*

Once inevitable disclosure has been deemed to apply to a particular case, a court must decide the particulars of an injunction prohibiting the employee from accepting employment with his new organization. The second step in this Note's proposed process is the institution of a series of *concrete* limits on the duration and scope of injunctions in inevitable disclosure cases involving the Internet. In typical inevitable disclosure cases, injunctions usually last for as long as a court deems reasonably necessary to prevent one side from continuing to gain a commercial advantage over the other, or until the information ceases to be useful as a "trade secret."<sup>140</sup> If the trade secret is one concerning Internet business models and strategies, this approach seems workable, as the industry is not markedly different from others in terms of the prolonged utility of such strategies. In terms of pure technologically driven trade secrets, however, such secrets almost always have a very short useful life, as new technologies come and go with great regularity. Applying a harsh restriction on an employee's job prospects in these cases must be tethered to a lower standard, as the need to protect Internet trade secrets for an extended period of time is not as great as it is in other contexts. Thus setting maximum limits on the duration of injunctions will serve a two fold purpose: (1) It will keep judges aware of the industry's ephemeral nature and help to prevent injunctions from extending beyond the life of the trade secret, a mistake that would be exacerbated in the Internet field given the "accelerated time" nature of the industry; and (2) It will provide greater motivation to Internet companies seeking to protect valuable technological information to take the steps necessary to

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140. In other words, it ceases to be a "secret" and is in the public domain. See *supra* Part I.B.3.

prevent unnecessary disclosure of such information,<sup>141</sup> knowing that an employee who did not sign a non-compete agreement can be enjoined from working for a competitor only for a brief period of time.<sup>142</sup>

In terms of the geographical scope of the injunction, a familiar problem resurfaces: how to translate inevitable disclosure concepts into the excessively broad context of the Internet.<sup>143</sup> In many injunctions involving trade secrets, courts limit their scope to a reasonable area; thus, a court may enjoin an employee who leaves company A with trade secret information from working for any company within a hundred-mile radius of company A. Such a scenario is troublesome in the Internet field, where anything online is available to *all*, and theoretically has a worldwide geographical scope. Here, again, courts must undertake a more thorough analysis to determine the exact breadth of the organization's market power. When deciding how far the injunction's grasp should extend, a court should consider factors such as the number and origin of website customers, the customer base of the company (in cases where the organization started in a non-Internet context and then developed a Web site), and the nationwide and worldwide recognition of the company.

### 3. *Compensate the Employee*

The third and final step in this Note's proposed analysis is as radical as it is simple. If an injunction is granted in an inevitable disclosure case involving the absence of a non-compete agreement, courts should require the former employer trying to protect its trade secrets to compensate the departing employee who has been prevented from accepting similar work with a competitor. As previously discussed, enforcement of the inevitable disclosure doctrine in the absence of a non-compete agreement creates, in essence, a judicially mandated term in the original employment contract, and thus runs contrary to the fundamental principles of contract law of bargained-for consideration. If the need to protect a trade

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141. For example, by requiring the employee to sign a non-compete agreement upon joining the company.

142. A reasonable duration may be somewhere in the range of three to four months.

143. See *supra* notes 119-20 and accompanying text.



secret is so great that a court must use the inevitable disclosure doctrine as the basis for an injunction, it seems entirely equitable that an employee with knowledge of the trade secret be compensated by an amount equivalent to the "value" of a non-compete clause in the original employment agreement.<sup>144</sup> In other words, the court would give the employee a monetary award equal to whatever additional compensation he would have received had he entered into a non-compete agreement originally. This would strike a reasonable balance between the strong employer interest in protecting the trade secret and the equally strong employee interest in preserving his right to earn a living.

Though it seems almost paradoxical that the "winner" of a lawsuit should be required to pay the "loser" monetary damages, such a result is by no means unprecedented, nor impossible to implement.<sup>145</sup> Courts could arrive at an adequate amount by surveying employers and employees in the Internet field to ascertain how much a non-compete agreement is valued, by looking at similar employment contracts that differ only by the fact that one

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144. In a 2000 article Jonathan Harris argues a similar remedy for courts applying the inevitable disclosure doctrine generally (not just in Internet-related cases). He contends that "a court should require that an injunction, like a restrictive covenant, be supported by additional consideration," but believes that this consideration must be in the form of "compensation above the amount the former employee received as compensation under his or her previous contract," seeming to suggest that employees should be compensated throughout the length of the injunction as if they were still receiving their salaries from their former employer. See Jonathan O. Harris, Note, *The Doctrine of Inevitable Disclosure: A Proposal to Balance Employer and Employee Interests*, 78 WASH. U. L. Q. 325, 343-44 (2000). This Note contends that this remedy goes too far in attempting to balance employer and employee interests, as it essentially allows the employee monetary gain by doing *nothing*. By only compensating the employee by the value of the non-compete clause, a more equitable solution is effected. Not only is the employee given additional monetary consideration for a non-compete agreement, but, given the abundance of jobs in the Internet field, there is a greater likelihood that he would be able to find alternate employment in a different capacity during the term of the injunction. Even if he cannot, however, this remedy still seems more equitable than the remedy Harris proposed.

145. See, e.g., *Emery Indus. v. Cottier*, No. C-1-78-474, 1978 U.S. Dist. LEXIS 15953, at \*22 (S.D. Ohio Aug. 18, 1978) (enjoining departing employee from working in the ozone field and requiring the former employer to pay the employee "as consideration for the noncompetition and as a condition for the continuance of the injunction"); *Spur Indus. v. Del E. Webb Dev. Co.*, 494 P.2d 700, 708 (Ariz. 1972) (establishing the concept of a "compensated injunction" by issuing permanent injunction against defendant in a nuisance suit and requiring him to shut down operations, but ordering the plaintiff to "indemnify [defendant] for a reasonable amount of the cost of moving or shutting down").

has a non-compete clause, or by simply basing their calculation on the amorphous concept of how much compensation it deems the employee will lose (or has already lost) by not being able to search freely for employment. The key point to take away from such a measure is that it best supports the underlying theme of “balance” that permeates all inevitable disclosure cases whose facts are based on missing non-compete agreements, particularly in the Internet field.

### CONCLUSION

The inevitable disclosure doctrine can at once appear reasonable and equitable, convoluted and unjust. Ranging in application nationwide, the doctrine—on its face—unduly restricts the inalienable right of a person to pursue his own labor, and does so with a weak and ill-supported justification. Despite its seemingly harsh consequences, however, the doctrine *does* have a place in American jurisprudence, particularly in the sphere of the Internet industry. By limiting application to narrow, fact-specific scenarios, and by setting specific remedial guidelines that allow balancing of the inequities that the doctrine creates (such as compensated, short-lived injunctions), this Note suggests that the inevitable disclosure doctrine can be a feasible solution to the problems that trade secret law was created to solve. As such, it should not be discarded.

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